



## Doing Business in Russia:

### 2010 Country Commercial Guide for U.S. Companies

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## Chapter 1: Doing Business In Russia

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### Market Overview

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- With over 140 million consumers, a growing middle class, and almost unlimited infrastructure needs, Russia remains one of the most promising markets for U.S. exporters. In 2009, per capita personal disposable income (\$4,830) and GDP (\$15,200) were the highest among the BRIC countries. Prior to the global economic crisis, during which 2009 GDP declined 7.9%, Russia had a nine-year run of continuous rapid economic expansion, with GDP growing approximately 7% annually. Most domestic and international experts believe that Russia emerged from recession in the third quarter of 2009; forecasts for 2010 GDP range from 3.3% to 6.2%.
- Russia was the U.S.'s 32nd largest export market and the 20th largest exporter to the U.S. in 2009. U.S. exports to Russia were \$5.4 billion, a 42% decrease from 2008. Russian exports to the U.S. were \$18.2 billion, down 32% from 2008. Russian sources list the country's leading trade partners as: China, Netherlands, Germany, Italy, Ukraine, U.S., Japan, Turkey, Poland and France.
- By the end of 2008, cumulative U.S. foreign direct investment in Russia was approximately \$9.2 billion, a drop in value of 36% from 2007. According to Russian data, the U.S. is Russia's sixth largest foreign investor.
- The Bilateral Presidential Commission established in April 2009 is expected to result in increased opportunities for trade and investment between the two countries.

### Market Challenges

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- Russia is a geographically vast market, stretching over 11 time zones and encompassing over 17 million square miles.
- Seriously undeveloped infrastructure causes logistical challenges, especially accessing markets outside of major cities.
- An incomplete transition from central planning has led to an insufficiently integrated economy and disparities in wealth distribution, geographically and demographically.
- Conducting business may be impeded by: burdensome regulatory regimes, inadequate IPR protection, pervasive corruption and disrespect for rule of law, inconsistent application of laws and regulations; lack of transparency; excessive government interference in business matters; and other market access barriers, such as protectionism.
- The global economic crisis has inhibited access to credit.
- The Russians immigration and visa system is complex, requiring time and expertise for business travelers to obtain necessary permissions to do business in Russia.
- English is not widely spoken.

## Market Opportunities

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- Automotive Parts & Service Equipment/Accessories
- Aviation
- Chemical Production Machinery/Industrial Chemicals
- Consumer Electronics
- Cosmetics/Toiletries
- Electric Power Generation & Transmission Equipment
- Green Technology/Energy Efficiency
- Medical Equipment
- Restaurant Equipment
- Security & Safety Equipment
- Travel & Tourism to U.S.

## Market Entry Strategy

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- Developing business in Russia is resource intensive, requiring serious commitments of time, personnel and capital.
- Conduct market research, such as with the U.S. Commercial Service's Gold Key or International Partner Search services, to identify opportunities and potential Russian business partners.
- Conduct due diligence, such as with the U.S. Commercial Service's International Company Profile service, to ascertain reliability of business partners.
- Consult with U.S. companies already in the market, as well as with the U.S. Commercial Service and business organizations, such as the American Chamber of Commerce and U.S.-Russia Business Council.
- Communicate regularly with Russian business partners to ensure common understanding of expectations.
- Frequent travel to Russia is strongly recommended to establish and maintain relationships with business partners and to understand changing market conditions.
- Maintain a long-term timeframe to implement plans and achieve positive results.
- Abide by all Russian laws and regulations (taxes, customs, labor, etc.) – retaining local tax, legal and government relations advisors is strongly recommended.
- Conduct business in accordance with all applicable U.S. laws, as well as standard U.S. and international business practices.
- Utilize letters of credit or other secure financing vehicles, avoid sales on open account.
- Explore use of U.S. government financing, such as the Export-Import Bank (Ex-Im Bank) and Overseas Private Investment Corporation (OPIC), as well as multilateral development banks, such as the European Bank for Reconstruction and Development (EBRD).
- Develop working relationships with national, regional and/or local governments and consider implementing corporate social responsibility programs.
- Patience, perseverance, and perspective are keys to success in Russia.

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## **Chapter 2: Political and Economic Environment**

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

<http://www.state.gov/r/pa/ei/bgn/3183.htm>

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### Using an Agent or Distributor

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Encompassing eleven time zones, Russia is the largest country in the world by landmass. Therefore, many businesses tend to approach the Russian market on a regional basis. Most new entrants start in Moscow and then move into the regions either through an existing distributor or by seeking new distributors in those locales. As both Moscow and St. Petersburg are major population and business centers, many Western firms have representatives there. Some companies have successfully entered the Russian market by starting distribution in other key regions first because of market features and industry sector concentrations (e.g., woodworking in northwest Russia, energy projects in Sakhalin and western Siberia) and then expanding elsewhere. Well-organized distribution channels are established in western Russia, especially in Moscow and St. Petersburg, and continue to develop rapidly in southern Russia, the Volga region, Urals, Siberia and Russian Far East. To succeed in Russia, it is important to choose sales targets and distributors carefully.

**U.S. companies have four basic options when choosing a distribution channel:**

#### **1) Agents**

It is not a common practice in Russia for foreign companies to rely solely upon the services of an agent. Distributors and representative offices, however, often employ agents in the Russian regions in order to promote their products.

#### **2) Distributors**

The most common market entry strategy is to select a good distributor or several distributors (depending on the product). U.S. companies can consider a variety of national, regional and local distribution alternatives. In some product categories (e.g., apparel, cosmetics, packaged foods, alcoholic beverages, consumer electronics, and household appliances), foreign suppliers

can choose from a growing number of established distributors. A good distributor will typically sell and deliver foreign suppliers' products to end-users and/or the retail market and provide a wide range of logistical support, i.e., customs clearance, warehousing, inventory management, etc. However, handling promotion and advertising campaigns exclusively through independent distributors can often produce disappointing results. Russian distributors normally handle products from multiple suppliers and are not typically dedicated to promoting a specific company's product unless the supplier provides substantial support for promotion and advertising. Russia's retail law also limits some types of promotional activities.

### **3) Representative/Branch Offices**

Some foreign manufacturers, in addition to using distributors, have established their own representative offices. The major advantage of opening a representative office is that foreign companies have more direct contact with their end-users and control over the promotion and distribution of their products. However, under the Russian Civil Code, such offices cannot be directly involved in commercial activity. Instead, they typically oversee a network of distributors and/or agents that perform commercial functions. This approach affords greater control by the foreign supplier over the distribution process and helps to reduce risks.

As Representative Offices may not take part in commercial activities, Branch Offices have become increasingly more popular. According to a 1999 foreign investment law, foreign companies may engage in commercial activities through their legally established branches. Branches are accredited for five years and must be registered with tax authorities and other state organizations.

Both Representative and Branch Offices can be attractive to foreign businesses wishing to operate in the Russian market because there are fewer tax and other administrative burdens and currency control restrictions may not apply.

### **4) Foreign Subsidiaries**

Some foreign manufacturers, particularly in the cosmetics, pharmaceuticals, consumer appliances, durables and industrial products sectors, have registered their wholly owned subsidiaries in Russia. They then sell directly to their own companies registered in Russia who import for their own account. This approach affords full control of the supplier over distribution and helps to further reduce possible risks from false invoicing and other irregularities sometimes committed by independent importers and distributors. For more information on registering a company in Russia, please refer to the "Establishing an Office" section below.

U.S. exporters are advised to cultivate personal relationships with their Russian representatives and clients, to proceed gradually, and to ensure they have a contingency plan should problems arise. Since it is often difficult to find information on Russian companies, it is strongly recommended that U.S. firms consider using the International Company Profile service to validate potential partners. The U.S. Commercial Service strongly advises against the risky practice of a company representative simply visiting Russia once or twice, selecting a representative, granting exclusive representation, and then moving quickly to consignment or credit sales without first establishing a payment and performance history. In addition, exporters are cautioned to take primary responsibility for registering their brand names in Russia and not to rely on a partner to do this. Finally, it is important to provide a Russian partner with Russian language product information and marketing materials. These can be prepared in the United States or done jointly with a Russian partner.

The U.S. Commercial Service provides assistance to U.S. companies in finding local partners through the Gold Key Service, Pre-Service Market Assessment, International Partner Search, International Company Profile, Customized Market Research, Platinum Key and other products and services. Information about these services can be found at [http://www.buyusa.gov/russia/en/products\\_services.html](http://www.buyusa.gov/russia/en/products_services.html).

## **Establishing an Office**

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The U.S. Commercial Service can provide basic counseling on registration requirements and procedures. However, it is strongly recommended that interested U.S. companies seek legal advice on business registration. U.S. Commercial staff can provide contact information for U.S. and Russian consulting firms that offer professional legal advice in this area.

## **Registration Options**

The following basic laws and government resolutions regulate business registration in Russia:

- The 1999 Federal Law “On Foreign Investment in the Russian Federation”
- The 1994 Part I of the Civil Code
- The 2001 Federal Law “On State Registration of Legal Entities”
- Russian Government Resolution No. 319 “On Authorized Federal Entity of the Executive Power, Providing State Registration of Legal Entities” of May 17, 2002, and a number of legal acts.

Conducting business without registration is illegal. Although the federal law governing the process is uniform throughout Russia, it is often subject to local interpretation.

Russian law offers several commonly used structures to conduct business:

- Representative or branch office of a foreign company
- Registration as an individual private entrepreneur
- Companies:
  - Limited Liability Company (OOO)
  - Privately held, closed joint stock company (ZAO)
  - Publicly held, open joint stock company (OAO)

Branch offices and accredited representative offices are both legally distinct from Russian corporations, which may be established by foreign firms either as joint stock companies with partial Russian ownership, or as wholly owned subsidiaries of a foreign firm. Foreign ownership can be as high as 100%, with some exceptions. For example, foreign investment is limited in industries defined by the “Strategic Sectors Law” (discussed in this chapter under “Joint Ventures/Licensing”).

## **Branch Offices**

Branches are not considered independent legal entities, though they may negotiate, market or provide other business support on behalf of firms based outside Russia. Setting up a branch may be worthwhile if a foreign company is starting to pursue business in Russia and is exploring opportunities. Many large U.S. firms began their Russian operations as locally established branches.

Branches of foreign firms must register with the State Registration Chamber, which is part of the Ministry of Justice of the Russian Federation. Branches will incur the following fees for accreditation: RR 60,000 (State duty) plus RR 15,000 for one year; RR 30,000 for two years; RR 45,000 for three years; and RR 60,000 for five years.

### **Accredited Representative Offices**

Like branches, accredited representative offices are not independent legal entities; they may not be involved in commercial activities. After accreditation is obtained, the office should register with the local or regional registration chambers, located in many Russian cities. Advantages of an accredited office include annual/quarter (rather than monthly) reporting requirements for some activities (including some tax payments), and the ability to issue invitations for U.S. partners to visit Russia on business visas. Up to five foreign employees may work with an accredited office of a foreign company. Offices are usually accredited for one to three year terms.

Accredited representative offices also must register with the State Registration Chamber in order to be included in the State Register of Accredited Representative Offices of Foreign Legal Entities in the Russian Federation. They are also advised to register with appropriate state organizations, depending on their industry. Such agencies include the Central Bank, Ministry of Economic Development Ministry of Finance, Ministry of Transportation, Ministry of Industry and Trade, Ministry of Energy and others. According to internal procedures, accreditation of a representative office or branch should take 21 business days starting from the day the full set of required documents are provided.

Representative offices will incur the following fees for accreditation: RR 30,000 for one year, RR 60,000 for two years and RR 75,000 for three years. An additional fee of RR 15,000 may be paid for expedited accreditation within seven days.

Further information is available on the State Registration Chamber website at <http://www.palata.ru>.

### **Companies and Taxation**

Companies are required to register with the local Tax Inspectorate (the tax registration will also include registration with the Russian Social Security Funds). Documents for state registration should be prepared and submitted to the local Tax Inspectorate in accordance with Chapter 12 of the August 8, 2001 Federal Law "On State Registration of Legal Entities." An authorized legal entity, the Moscow Department of the Ministry of Finance of the Russian Federation (15, Tolskaya Street, Moscow) provides counseling to business people on registration procedures and registration documents.

Further information on company registration, including the list of documents to be submitted, as well as contact information for local tax authorities can be obtained from the following website: <http://www.nalog.ru>

### **Tax Code**

Major revisions of Russia's tax code took place from 1999 to 2003. The resulting tax legislation more closely matches the needs of a growing market economy, and many of the provisions of previous legislation that distorted the business environment and kept many businesses in the shadow economy have been removed.



The most fundamental changes were reflected in the new chapters of the Tax Code Part II and affected the value added tax, excise taxes, individual income tax and profits tax. Also affected was the Federal Law "On the Introduction of Amendments and Additions to Part II of the Russian Federation Tax Code and to Separate Russian Federation Legislative Acts." These changes aimed at improving Part II of the Russian Tax Code were passed by the Duma and enacted into law in 2003. The ongoing tax reform has further improved procedural rules and reduced the overall tax burden in the country.

Implementing numerous changes in the Russian Tax Code has resulted in some confusion. A general overview of Russian taxes follows, but companies operating in Russia should consult with a professional tax advisor to learn about the latest developments.

### **Profits Tax**

The profits tax is levied on net profits. Effective January 2009, the profit tax rate was reduced from 24% to 20% (18% of this amount is allocated to Regional Russian authorities and 2% to Federal) to address the economic downturn. The regional authorities may, at their discretion, reduce their regional profits tax rate to as low as 13.5%. Thus, the overall tax rate can vary from 15.5% to 20%. Depreciation provisions were improved with the introduction of a 30% initial lump sum depreciation deduction and revision of non-linear depreciation rules. The tax rate was reduced in tandem with the introduction of more realistic interpretations of deductible expenses, the combined effect of which is to significantly reduce the profit tax burden and support the Russian economy during the financial downturn.

The provisions on profit taxation enable foreign companies operating in Russia to benefit from the reduced withholding tax rates and exemptions under Russia's double taxation treaties (the U.S. and Russia have had a double taxation treaty in place since 1992), which in certain cases could result in advantages to U.S. companies. For example, representative offices are permitted to deduct expenses incurred on their behalf by a parent company located abroad.

### **Value Added Tax (VAT) and Import Duties**

VAT is designed as a tax to be borne ultimately by consumers, but is collected on a basis similar to the European Union model. VAT is calculated on sales value and is applied at a uniform rate of 18%, except for certain foodstuffs, pharmaceuticals and children's clothes, which are taxed at 10%. Some products, such as certain financial services and medical equipment, are entirely exempt from VAT. As of January 1, 2008, in an attempt to bolster R&D and investment in technology, intangibles such as inventions, software, industrial designs and production know-how are exempt from the VAT.

Imports are also subject to VAT, calculated based on the customs value of the item plus customs duties and fees. In addition, import duties are assessed at specified rates, ranging from 5% to 30% (as of January 1, 2010, import duty rates for some goods increased with the introduction of the Customs Union between Russia, Belarus and Kazakhstan). They are assessed according to classification and are applied to the customs value of the imported goods, including shipping charges and insurance. Goods imported by foreign partners as in-kind contributions to the charter capital of a new enterprise may be exempt from import duties during a period specified in the charter documents and import VAT under certain conditions (e.g., the goods qualify as technological equipment which has no analogues manufactured in Russia).

In general, goods manufactured or assembled in Russia, whether by a Russian or foreign company, and then exported out of Russia, are not subject to VAT. If these goods are exported

before payment is received, then no VAT should be collected. On the other hand, if payment is received before shipment, the exporter must pay the applicable VAT and then request a refund from the tax authorities. Changes in the method of VAT collection for certain entities such as diplomatic missions, effective January 1, 2010, have resulted in some confusion as businesses and government offices make the needed adjustments to the revised system.

### **Social Welfare Taxes**

As of January 1, 2010, the Unified Social Tax was replaced by social security (payroll) contributions to the State Pension Fund, Social Security Fund, Federal Medical Insurance Fund and Territorial Medical Insurance Fund. A business is liable for the entire amount of social security contributions and no amount is withheld from employees. The recent implementation of the change in social welfare taxes has resulted in some confusion, as businesses and government offices make the needed adjustments to the new system.

The social security contributions apply at the aggregate rate of 34% (26% in 2010) on an employee's annual salary of up to RR 415,000 (the threshold may be adjusted in the future by the Russian Government); the portion of an employee's annual salary in excess of this threshold is exempt from the social security contributions. Social security contributions are payable as follows: 26% to the State Pension Fund, 2.9% to the Social Security Fund, 2.1% to the Federal Medical Insurance Fund, and 3% to the Territorial Medical Insurance Fund. The social security contributions apply to all payments to individuals (including individuals applying a simplified system of taxation) even if made from net income. Importantly, salary or other payments to foreign citizens temporarily present in Russia (i.e., not having a permanent resident permit) are not subject to social security contributions. Social security contributions are paid on a monthly basis and the calculations of the social security contributions are filed with the State Pension Fund and the Social Security Fund on a quarterly basis.

Reduced social security contribution rates apply to the following business categories: agricultural producers (20% in 2010, 20.2% in 2011-2012), companies located in special innovative technology zones (14% in 2010, 20.2% in 2011-2012).

Workplace accident insurance is paid by the employer in addition to social security contributions. Rates vary from 0.2% to 8.5% depending on the established class of professional risk.

### **Withholding on Dividends, Interest and Royalties**

Foreign legal entities without a business presence in Russia are subject to a withholding tax of 10% on freight services provided in Russia. Dividends are taxed at a rate of 15%, interest and royalties at a rate of 20%. These rates are often reduced pursuant to an applicable relevant double taxation treaty (the U.S.-Russia tax treaty potentially may reduce the dividends rate as low as 5%, depending on whether certain ownership and investment criteria are met, as well as lower the tax on interest and royalties to 0%). Lease payments and other income are subject to a 20% withholding rate.

### **Land, Property and Personal Income Taxes**

Local authorities may impose a tax on land according to its type and location. The rate is higher in Moscow and St. Petersburg than in some other cities and rural areas.

The personal income tax rate for Russian tax residents is a flat 13% imposed on worldwide income (non-residents are taxed at 30% on Russian-source income).

## Franchising

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Franchising as a business model only came to Russia in the early 1990s. The first foreign franchises were primarily American and Italian restaurant chains. Franchise legislation was formally adopted in 1994 by the Russian Civil Code, specifically in Chapter 54, where franchising is defined as a “commercial concession.” Since then the number of franchise companies has steadily grown. While foreign franchises dominated the market for the first decade, a number of Russian retailers, restaurant and drugstore chains began to expand using the franchise model. Currently, there are more Russian than foreign franchise organizations. It is difficult to estimate the number of franchises currently working in Russia because some are registered under other legal forms, such as through licensing agreements or sales contracts. The franchising business model has developed mainly in the restaurant and fast food, retail, and other consumer-service areas. Most franchisers choose to establish partnerships with franchisees in Moscow or St. Petersburg; however, there are several other cities with million-plus populations, which can provide excellent opportunities for expansion.

There are still some gaps in Russian franchising legislation, but local franchising entrepreneurs, with the help of the Russian Franchise Association, formed in 1997, are actively working to create a more favorable legal and business environment for the expansion of franchising in Russia, and to support and protect the interests of its members. The annual BuyBrand International Franchise Exhibition, held annually in Moscow in September, is an excellent way to make contacts and become acquainted with the market.

## Direct Marketing

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Given the relatively underdeveloped state of some distribution channels in Russia, direct marketing has become an effective and profitable alternative, especially outside of Moscow and St. Petersburg. Telemarketing and fax marketing to business customers is common in Russian cities, but it is not particularly effective. Other direct marketing channels (catalogs and e-commerce) are developing rather quickly.

Direct selling (for example of health and beauty products) also works well and is cost effective for the distributor, since it develops an effective distribution network. For a large number of under-employed workers and pensioners in Russia, the option of supplementing their income through working in direct sales is quite attractive. World Direct Selling Association statistics released in January 2010 revealed that direct sales in Russia in 2008 amounted to \$2.87 billion and that almost 4.4 million salespeople Russia-wide were engaged in direct selling.

Leading direct sales companies such as Amway, Avon, Mary Kay and Tupperware are active in Russia. The Russian Direct Selling Association estimates that direct sales accounted for approximately 25% of the total cosmetics and toiletries sales in 2009. According to Russian law, companies may not use direct sales for such products as biologically active food additives and vitamins. At present, these products can only be sold through pharmacies, kiosks, and health stores. For more information on the direct selling industry in Russia, visit the Russian Direct Selling Association website at: <http://www.rdsa.ru/eng.html>.

## Joint Ventures/Licensing

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Though not as common as in the past, U.S. companies may become strategic partners with Russian firms by taking an equity position in Russian joint stock companies and thus establishing joint ventures (JV). Establishing a JV in Russia demands meticulous planning and

sustained commitment. In most cases, it is advisable for the U.S. partner to retain managerial and voting control. JVs in which foreign partners hold minority stakes are dependent on the good intentions of their Russian majority owners. Experience shows that foreign minority shareholders may face serious difficulty in protecting their interests in Russian courts.

One advantage of a JV is that it helps a U.S. firm gain a measure of Russian identity, which can be useful in a culture where many still view foreigners with suspicion. The May 2008 Strategic Sectors Law identified 42 industry sectors requiring the Russian government's pre-approval of a foreign firm's purchase of controlling interest. Additionally political pressure is mounting in Russia for domestic content mandates in key sectors or for large-scale procurements. For example, some foreign investments in the oil industry may be required to source 70% of their goods and services from Russian providers. Firms that creatively help oil producers meet these requirements will have an advantage in this industry.

Russian and U.S. partners often view JVs differently. U.S. companies, especially smaller ones, often view JVs as a means of securing a local partner with experience in the Russian market. On the other hand, many Russian managers view a foreign partner chiefly as a source of working capital and these managers may place a low priority on local market development. While there are many examples of successful JVs, a U.S. investor invites trouble when it cedes oversight of any aspect of a JV to a Russian partner which does not share the same objectives. Before making financial or legal commitments, U.S. firms should thoroughly explore whether a potential partner shares their priorities and expectations. Any firm that forms a JV in Russia should be ready to invest the constant personal attention of U.S. managerial staff to keep the business on course, both before and after the venture has achieved commercial success.

U.S. technology is sometimes licensed for Russian production outside the context of a joint venture. Major hurdles that must be overcome include quality levels attainable by Russian facilities in the absence of significant retooling, uncertain intellectual property protection and difficulty in receiving regular and prompt payments. In the opposite direction, Russian companies generally are eager to license their technologies to foreign companies in exchange for the cash infusion.

## **Selling to the Government**

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The Russian government spends over a third of its budget on procurement. The 2005 Law On Placement of Orders for Delivery of Goods, Performances of Works and Provision of Services for State and Municipal Needs regulates tenders on all government purchases over \$8,000 (except for those made in commodity exchanges). Auctions have to be advertised on agency websites as well as on a consolidated government procurement website (<http://www.zakupki.gov.ru>). The law was amended in 2007 to make the process of procurement more transparent. The 2005 law eliminated restrictions on the participation of foreign suppliers, although it still permits exceptions for reasons of national security or defense.

Regional or local authorities are potential customers for U.S. suppliers. For example, the Federal Ministry of Health and Social Development and some of the regional administrations often buy supplies for distribution to hospitals and clinics. While local governments receive sharply reduced federal subsidies, they have the flexibility to make purchase decisions based on local factors and contacts. It should also be noted that there is pressure on many levels of government to purchase Russian goods and services. U.S. manufacturers are advised to establish good working relations with local tender operators and seek appropriate local partners or distributors who will represent their products in the tenders.

Well-organized distribution channels have developed significantly over the last few years, particularly in the major population centers, such as Moscow and St. Petersburg, and have begun to expand to the regions. In the consumer sector, some large-scale retail stores have recently emerged in Moscow that are able to buy in bulk and negotiate relatively long-term commitments. Large shopping malls have opened up on the Ring Road circling the capital and are giving the Moscow retail environment more of the characteristics of other European cities. Shopping malls and big box stores are common sights in St. Petersburg, Moscow and many other Russian cities.

By utilizing these domestic distribution organizations, the task of bringing goods to market in Russia has been greatly eased. However, their geographic coverage can be limited, and accessing markets in some of the regions can still be problematic. In these regions, U.S. firms may encounter erratic distribution, unpredictable and tough competition, and word-of-mouth marketing. Although Russia boasts increasing numbers of western-style stores in major cities, much distribution and retailing still takes place through such informal channels as kiosks and open markets. Those who succeed do so through a combination of improvisation and innovation, combined with a substantial investment of time and a tolerance for early mistakes. U.S. companies with a long-term market development strategy may find regional markets well worth exploring.

St. Petersburg remains the main port of entry for a variety of consumer and industrial products for European Russia (Russia west of the Urals). Vladivostok is the main port of entry for the Russian Far East. In general, the transportation infrastructure in this vast country is still underdeveloped and in need of major upgrades. The majority of cargo moves by rail and the road network is in need of expansion. Major western freight forwarders and express couriers are active in Russia.

As with any country, successfully marketing and selling goods and services in Russia requires adaptation to its commercial climate and business practices. Market research is required to identify opportunities and potential Russian business partners. The choice of a partner is key and should be done only after conducting sufficient due diligence to determine their reputation and reliability. The U.S. Commercial Service has services to assist with market research, identifying partners and conducting due diligence ([http://www.buyusa.gov/russia/en/products\\_services.html](http://www.buyusa.gov/russia/en/products_services.html)).

Both before and after launching operations, travel to Russia is strongly recommended to establish and maintain relationships with business partners and to understand market attributes. Marketing in Russia requires patience: exporters should maintain a long-term perspective and not expect immediate results. It can be helpful to network with companies already in the market, as well as business organizations, such as the American Chamber of Commerce in Russia and the U.S.-Russia Business Council.

Business planning should include advertising, market promotion and regular visits to Russia. When recruiting personnel or identifying business partners, local talent should be utilized, especially for government relations, which can be of critical importance, and professional services of all kinds, whether law, accounting or engineering, etc. Absentee management should be avoided; it is important to communicate regularly with Russian business partners to

ensure common understanding of expectations. Partners can assist with required testing and certification, after-sales service, customs clearance, warehousing and preparation of Russian-language marketing and instruction materials.

Business should always be conducted in compliance with all Russian laws and regulations (taxes, customs, labor, etc.), as well as applicable U.S. laws and standard business practices, including corporate governance and accounting practices. Companies that undertake corporate social responsibility programs in the U.S. should consider developing a similar approach for the Russian market.

Exporters should avoid selling on open account until they have developed a well-established track record with buyers; letters of credit and other secure financing vehicles are available. Another option may be U.S. government or multilateral development bank financing, such as U.S. Export-Import Bank (Ex-Im Bank), U.S. Overseas Private Investment Corporation (OPIC) or the European Bank for Reconstruction and Development (EBRD). Exporters should be prepared to adjust prices according to currency fluctuations.

Russian purchasers are generally sophisticated and highly educated. They are likely to be internet users and receptive to imported goods. Russian purchasers may be price sensitive, but are frequently willing to pay for quality, especially for recognized and reliable imported brands – another reason to invest in advertising.

## **Electronic Commerce**

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E-commerce in Russia grew 20% in 2009, reaching \$9 billion in sales. The business-to-business segment increased to \$3 billion. According to some estimates, the Internet advertising market may reach \$370-400 million in 2010, with Yandex Direct, Google Adwords and Rambler Begun among the key players.

The number of Russian Internet users has increased dramatically over the past five years, reaching 42 million people or 30% of the population nationwide. Over 25% of these users, however, are in Moscow and St. Petersburg. Future growth in Internet usage is expected to be significant.

Payment mechanisms are developing very fast and offer a wide range of payment methods - SMS, credit card, phone, and COD. The number of online shops in the Russian market has reached 13,000, selling \$3.6 billion worth of goods in 2009. Home appliances and electronics accounted for 45% of sales, with the fastest growing subsectors being electronics (at 300%) and household goods (at 150%). Many companies buy products from foreign E-commerce platforms, such as Yahoo Auctions, Ebay and Alibaba, and resell them in Russia, offering escrow services like PayPal or AliPay.

Although the number of consumers with credit and debit cards is increasing rapidly, many Internet businesses in Russia still do not accept online payments but rather use their websites as a front end for the buyer to select goods and place an order to be delivered COD. Businesses offering goods or services that can be accessed immediately (electronic downloads and service account top-ups, for instance) offer credit card payment options most frequently. E-currency payments are also an option. The number of consumers with credit cards who are willing to use them online is constantly increasing and banks have begun offering various E-commerce payment products. Sales through these channels are expected to sustain rapid

growth in the coming years, although many consumers still have concerns regarding potential credit card theft via electronic media.

The Russian government's "E-Russia" program is intended to stimulate the growth of E-commerce throughout the country, using federal and local E-government initiatives as a catalyst. Another government initiative is the launch of the E-commerce platform [www.zakupki.gov.ru](http://www.zakupki.gov.ru), which is aimed at centralizing government purchases and reducing corruption. The site consolidates all procurement inquiries from government agencies, thus providing qualified suppliers the opportunity to sell products and services directly to the government.

## Trade Promotion and Advertising

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Television, radio, print, and billboard media are ubiquitous in the Russian market. Most international advertising agencies are active in Russia; domestic agencies are present in the market, as well. Strong economic growth and increasing incomes have resulted in growth in the advertising industry, although enforcement of some advertising laws has been inconsistent, leading to situations where already purchased advertising was disallowed by local government officials. Advertising clients include successful Russian manufacturers of consumer goods, particularly of processed foods and beverages, as well as foreign producers.

In response to the economic crisis, many companies cut their advertising budgets. However, the market is slowly starting to recover and companies are now returning to mass media. Though traditional forms of advertising are still prominent in Russia, in the context of the crisis, advertising agencies reconsidered their approach to the communication mix and increased their share of non-standard communication methods, including "below the line" (BTL), trade programs, ambient media, and flash mobs (publicity stunts). Advertising on the internet is a growth industry.

The following is a list of media outlets and print publications listed from highest to lowest penetration in Moscow:

### TV Channels

ORT	<a href="http://www.1tv.ru">http://www.1tv.ru</a>
RTR	<a href="http://www.rutv.ru">http://www.rutv.ru</a>
NTV	<a href="http://www.ntv.ru">http://www.ntv.ru</a>
TVC	<a href="http://www.tvc.ru">http://www.tvc.ru</a>

### Radio stations

Russian Radio	<a href="http://www.rusradio.ru">http://www.rusradio.ru</a>
Europa Plus	<a href="http://www.europaplus.ru">http://www.europaplus.ru</a>
Avtoradio	<a href="http://www.avtoradio.ru">http://www.avtoradio.ru</a>
Dynamite FM	<a href="http://www.dfm.ru">http://www.dfm.ru</a>
Shanson	<a href="http://www.chanson.ru">http://www.chanson.ru</a>
Radio of Russia	<a href="http://www.radiorus.ru">http://www.radiorus.ru</a>
Mayak	<a href="http://www.radiomayak.ru">http://www.radiomayak.ru</a>

### Press

#### Daily newspapers

Metro	<a href="http://www.metronews.ru/msk">http://www.metronews.ru/msk</a>
Moskovsky komsomolets	<a href="http://www.mk.ru">http://www.mk.ru</a>



Komsomolskaya Pravda	<a href="http://www.kp.ru">http://www.kp.ru</a>
Iz ruk v ruki	<a href="http://www.irr.ru">http://www.irr.ru</a>
<u>Weekly newspapers</u>	
Arguments and facts	<a href="http://www.aif.ru">http://www.aif.ru</a>
Teleprogramma	<a href="http://www.kp.ru/daily/tv">http://www.kp.ru/daily/tv</a>
Extra M	<a href="http://www.extra-m.ru">http://www.extra-m.ru</a>

<u>Weekly magazines</u>	
7 Days	<a href="http://www.7days.ru">http://www.7days.ru</a>
Antenna – Telesem	<a href="http://www.antenna-telesem.ru">http://www.antenna-telesem.ru</a>
TV Park	<a href="http://www.tv-park.ru">http://www.tv-park.ru</a>

<u>Monthly magazines</u>	
Caravan of stories	<a href="http://www.karavan.ru">http://www.karavan.ru</a>
Za rulem	<a href="http://www.zr.ru">http://www.zr.ru</a>
Vokrug Sveta	<a href="http://www.vokrugveta.ru">http://www.vokrugveta.ru</a>

## Pricing

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Russian consumers are attracted to bargains, but are increasingly able and willing to pay for quality merchandise. U.S. companies exporting to Russia should be prepared to offer competitive prices for their goods, knowing that in many areas they face inexpensive Russian, Asian and strong European and other third-country competition. With a few exceptions, all goods and services sold in Russia are subject to a value-added tax (VAT) of 18%. Imports into Russia are subject to VAT, which is assessed on the CIF value of an imported shipment plus applicable duty. In addition, in many sectors with strong local and third-country competition, it will be necessary to spend money on advertising and brand promotion. All these costs should be figured into the U.S. exporter's pricing structure and become part of a long-term marketing and sales program.

## Sales Service/Customer Support

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Good after-sales service, training and customer support can be a major competitive advantage for U.S. firms entering the Russian market, as Russian manufacturers are known for inadequate post-sale service. Similarly, buyers of sophisticated equipment of all types - from computers and process controls to medical and mining equipment - are keenly interested in training, as their employees may never have used particular products or brands. U.S. firms able and willing to offer training and support for products, particularly in remote sites, can gain a significant advantage over competitors. Conversely, companies unwilling to make this commitment may find themselves at a distinct disadvantage to European or Asian companies, whose proximity facilitates training and service. After-sales service is also often an important component in leasing arrangements in Russia, and will play a larger role in the decision process as leasing continues to develop. Leasing in Russia is covered in Chapter 7.

## Protecting Your Intellectual Property

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### IPR Climate in Russia

Several general principles are important for effective management of intellectual property rights in Russia. First, it is important to have an overall strategy to protect IPR. Second, IPR is



protected differently in Russia than in the United States. Third, rights must be registered and enforced in Russia, under local laws.

U.S. firms should proactively take steps to protect their intellectual property in Russia, including registering their trademarks with the Federal Service for Intellectual Property, Patents and Trademarks (Rospatent) and the Russian Federal Customs Service. It is vital that companies understand that intellectual property is primarily a private right and that the U.S. government generally cannot enforce rights on behalf of private individuals in Russia. While the U.S. government is willing to assist, there is little it can do if the rights holder has not taken the fundamental steps necessary to securing and enforcing his IPR in a timely fashion. The U.S. Commercial Service can provide a list of law firms based in Russia, which can provide advice on registering intellectual property and enforcing rights.

A good business partner is an important ally in protecting intellectual property rights. Legal counsel familiar with Russian laws can assist to reinforce the partners' IPR obligations by drafting a contract that includes non-compete clauses and confidentiality/non-disclosure provisions.

It is also recommended that small and medium-size companies work with trade associations and organizations to support efforts to protect IPR and stop counterfeiting. There are a number of these organizations, both Russia or U.S.-based. These include:

- American Chamber of Commerce in Russia (AmCham)
- National Association of Manufacturers (NAM)
- International Intellectual Property Alliance (IIPA)
- International Trademark Association (INTA)
- Coalition Against Counterfeiting and Piracy
- International Anti-Counterfeiting Coalition (IACC)
- Pharmaceutical Research and Manufacturers of America (PhRMA)
- Biotechnology Industry Organization (BIO)
- Coalition for Intellectual Property Rights (offices in the United States and Moscow)
- Russian Anti-Piracy Organization (RAPO) (represents the Motion Picture Association of America)
- Business Software Alliance (represented by Baltic Law Offices in Russia)
- Association of Branded Goods Manufacturers in Russia (RusBrand)
- Federal Service for Intellectual Property, Patents and Trademarks (Rospatent)
- Russian Federal Customs Service
- Russian Ministry of the Interior, Economic Security Department

More detailed information on IPR issues in Russia is provided in Chapter 6 (Investment Climate). Contact information is provided in Chapter 9.

## **IPR Resources**

A wealth of information on protecting IPR is freely available to U.S. rights holders. Some excellent resources for companies include the following:

- For information about patent, trademark, or copyright issues -- including enforcement issues in the U.S. and other countries -- call the STOP! Hotline: **1-866-999-HALT** or register at [www.StopFakes.gov](http://www.StopFakes.gov).

- For more information about registering trademarks and patents (both in the United States as well as in foreign countries), contact the U.S. Patent and Trademark Office (USPTO) at: **1-800-786-9199**; [www.uspto.gov](http://www.uspto.gov)
- For more information about registering for copyright protection in the United States, contact the U.S. Copyright Office at: **1-202-707-5959**.
- For U.S. small and medium-size companies, the Department of Commerce offers an "International SME IPR Advisory Program" available through the American Bar Association that provides one hour of free IPR legal advice for companies with concerns in Brazil, China, Egypt, India, Russia, and Thailand. For details and to register, visit: [http://www.abanet.org/intlaw/intlproj/iprprogram\\_consultation.html](http://www.abanet.org/intlaw/intlproj/iprprogram_consultation.html)
- For information on obtaining and enforcing intellectual property rights and market-specific IP Toolkits visit: [www.StopFakes.gov](http://www.StopFakes.gov). This site is linked to the USPTO website for registering trademarks and patents (both in the United States as well as in foreign countries), the U.S. Customs & Border Protection website to record registered trademarks and copyrighted works (to assist customs in blocking imports of IPR-infringing products) and allows you to register for Webinars on protecting IPR.
  - o For an in-depth examination of IPR requirements in specific markets, toolkits are currently available in the following countries/territories: Brazil, Brunei, China, Egypt, European Union, India, Italy, Malaysia, Mexico, Paraguay, Peru, Russia, Taiwan, Thailand, and Vietnam.
  - o For assistance in developing a strategy for evaluating, protecting, and enforcing IPR, use the free **Online IPR Training Module** on [www.stopfakes.gov](http://www.stopfakes.gov).
- The U.S. Commerce Department has positioned IP Attachés in key markets around the world. Contact information for the IP Attaché who covers Russia is available at: <http://www.buyusa.gov/russia/en/pto.html> or by emailing [RussiaUSPTO@mail.doc.gov](mailto:RussiaUSPTO@mail.doc.gov).

## Due Diligence

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As previously noted, Russia can be a challenging market fraught with obstacles for the U.S. company that does not take the time to learn about the business environment and choose local partners wisely. Taking shortcuts in evaluating business opportunities and in selecting local partners is not advisable. Complicating these efforts is the fact that the Russian economy continues the transition from a closed, centrally planned economy to a more open, market economy. This means that basic business information about regulations, company ownership and credit worthiness are not always easy to find, and the regulatory framework continues to evolve requiring companies to stay up-to-date with changes. The U.S. Commercial Service offers the International Company Profile service as a way to evaluate potential partners. For more information on this and other services, visit <https://www.buyusa.gov/russia/en>. Noted below are additional resources.

## Local Professional Services

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While professional services in Russia are expensive, attempts to avoid such expenditures could be perilous. In Russia's unsettled commercial environment, early and ongoing advice on tax and legal issues will ultimately save both aggravation and money. Russian commercial regulations are contained in thousands of presidential, governmental and ministerial decrees. Often, these decrees and laws overlap or conflict. Determining tax obligations is a complex

task. Furthermore, Russian accounting practices differ markedly from Western standards. Although the Russian government has officially stated that conversion to international accounting standards is a priority, the process is still far from complete.

In Moscow and St. Petersburg, there are many offices of major western accounting, legal and consulting firms blending the skills of Russian and foreign professionals. Competent smaller firms also operate under Russian or western management. U.S. firms should avail themselves of locally based specialists familiar with issues confronting western firms in Russia. The U.S. Commercial Service offices throughout Russia maintain lists of local attorneys and accounting firms. The American Chamber of Commerce in Russia is also a good source.

#### **Web Resources**

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The U.S. Commercial Service in Russia: <http://www.buyusa.gov/russia/en>

The U.S. Department of Agriculture: <http://www.fas.usda.gov>; <http://eng.usda.ru>

The U.S. Embassy in Russia: <http://moscow.usembassy.gov>

State Registration Chamber: <http://www.palata.ru>

Company Registration: <http://www.nalog.ru>

Russian Direct Selling Association: <http://www.rdsa.ru>

American Chamber of Commerce in Russia: <http://www.amcham.ru>

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## Chapter 4: Leading Sectors for U.S. Export and Investment

### **Commercial Sectors**

- [Automotive Parts & Service Equipment/Accessories](#)
- [Aviation](#)
- [Chemical Production Machinery/Industrial Chemicals](#)
- [Consumer Electronics](#)
- [Cosmetics/Toiletries](#)
- [Electric Power Generation & Transmission Equipment](#)
- [Green Technology/Energy Efficiency](#)
- [Medical Equipment](#)
- [Restaurant Equipment](#)
- [Security & Safety Equipment](#)
- [Travel & Tourism to U.S.](#)

[Agricultural Sector](#)

## Automotive Parts & Service Equipment/Accessories

### Overview

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\$ millions	2008	2009	2010 (estimate)
Total Market Size	10,500	7,500	7,800
Total Local Production	5,500	4,300	4,500
Total Exports	300	200	200
Total Imports	5,300	3,400	3,500
Imports from the U.S.	1,100	800	850

Source: U.S. Commercial Service estimates

Russia represents a large potential market for the U.S. automotive industry. Currently, the rate of car ownership in Russia is only 30% of the U.S. rate. The total Russian motor vehicle fleet is estimated at 38 million units, including 28 million (74%) cars.

During 2001-2008, the Russian automotive market was growing at an annual rate of 20-25% per year, and was the fastest growing automotive market in Europe. At that time, industry analysts believed that this market would become the largest in Europe by 2015. In 2008, many importing car dealers reported good results – new car sales grew by 24%, to 2.1 million from 1.7 million in 2007. The import of used cars and trucks was also growing strongly.

However, at the end of 2008, the Russian economy was severely affected by the world financial crisis. As a result, sales of new cars significantly dropped at the end of that year. This trend continued in 2009, when the sales of cars decreased 49% compared to 2008, and sales of trucks fell even more, by 70%. The sales of used vehicles also dropped as a result of the crisis and new, increased import duties.

It is hard to make predictions about the future motor vehicle market in Russia at this time. Nonetheless, all industry analysts agree that the market will stagnate in 2010, with signs of recovery expected only in 2011.

As part of the automotive industry supply chain, components, aftermarket replacement parts and accessories were also greatly affected by this crisis. However, since Russian domestic manufacturers are not capable of producing the quality parts, accessories and equipment required by modern cars and trucks, this segment was not hurt as badly as vehicles.

The Russian auto industry is one of the domestic economy's major sectors and the government is taking measures to support the market. Nonetheless Russian vehicle assembly and component manufacturing factories remain crippled by outdated equipment, lack of modern technologies and inadequate management. The major local automotive market players include: GAZ Group, a subsidiary of Basic Element, the largest Russian aluminum manufacturer; Sollers, a former subsidiary of the leading Russian steel producer Severstal, and AutoVAZ, currently controlled by state owned Rosvooruzhenie and by Renault (25% equity). The majority of component manufacturing assets are owned by the SOK Group, while others are represented by a number of independent manufacturers.

There are several projects underway to assemble foreign cars in Russia, including those of Ford, GM, Toyota, VW, Nissan and Renault. Ford's plant began operation in July 2002 in a

suburb of St. Petersburg. The high demand for the new Focus model made Ford one of the sales leaders in 2008 with almost 100,000 vehicles sold; this number dropped 48% to 52,000 in 2009. GM has two ventures in Russia: the GM-AvtoVAZ joint venture has manufactured the Chevrolet-Niva SUV since September 2002, and a new assembly plant in St. Petersburg is projected to make 70,000 Chevrolet and Opel crossovers annually.

In 2005, Renault started manufacturing its low-cost Logan vehicle at a Moscow-based facility; the factory's current turnover is about 70,000 vehicles. In December 2007, Toyota launched an assembly facility in St. Petersburg to manufacture 50,000 Camry vehicles annually. Nissan opened its plant in St. Petersburg in 2009 to produce the Teana and X-Trail. Volkswagen/PSA's plant was opened in Kaluga in 2008. There are also several other, less well-known projects: the Russian company SOK assembles 40,000 KIA Spectras in Izhevsk; Sollers set up Ssang Yong SUV assembly and Fiat low-cost sedans in Yelabuga; Hyundai has a joint venture to assemble several models with TagAZ. Other international projects are under construction including Nissan, Suzuki and Hyundai plants in St. Petersburg. There are also truck and bus assembly projects in Russia being developed by Volvo and Scania.

The key point, however, is that the major obstacle to successful development of foreign assembly projects in Russia is the lack of local component suppliers. Thus, the opportunity for U.S. exporters in this industry is substantial.

#### **Best Prospects/Services**

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- Engine, steering, brake system, and power train components
- Engines
- Seats
- Tires
- Interior components
- Specialty equipment for cars

#### **Opportunities**

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The best opportunities for U.S. firms are sales of components to foreign vehicle assembly projects in Russia and, longer term, the establishment of local manufacturing facilities or joint ventures. Foreign operators face increasing "local content" requirements and are interested in developing a supply chain for local components. They may even be prepared financially to support interesting projects. Although the local automotive industry is significantly affected by the current recession, industry analysts believe that it may start recovering in 2011, since demand remains considerable.

Another good prospect is to supply upgraded equipment and technology to Russian manufacturers. Opportunities also exist in the licensing and transferring of modern technology to Russian component manufacturers.

Aftermarket sales of replacement parts and accessories are dynamic, with high customer receptivity to U.S. products. Many U.S. brand names are very well known and sell strongly in Russia. Some of the "Made in the USA" products that Russian motorists seem to favor are lubricants, automotive chemicals and off-road accessories.

There are no significant trade barriers affecting imports of U.S. automotive parts and accessories; tariffs for many of these products are between 5% and 15%. The most important

factor affecting sales growth of U.S. aftermarket products in Russia is U.S. exporters' concerns regarding sharing brand building risks with local distributors. In this crisis-affected market, small and mid-size suppliers of specialty equipment for cars can be competitive if they are aggressive in their market entry, brand-building and advertising/promotion actions.

## Resources

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### Organizations

National Association of Automotive Component Manufacturers  
5 Sushchevsky Val, bldg 2  
Moscow 127018 Russia  
Tel: +7-495-974-8772, 73, 74  
[napak@napak.ru](mailto:napak@napak.ru)

St. Petersburg Association of Automotive Component Manufacturers  
16 Bolshaya Monetnaya Str.  
St. Petersburg 197101 Russia  
Tel. +7-812-313-8254  
[apac@spbapac.ru](mailto:apac@spbapac.ru)

### Trade Events

Moscow International Motor Show  
Aug 25-29, 2010  
*Moscow*  
<http://www.motorshows-ite.com>  
<http://www.interauto-expo.ru>

Auto & Automechanika  
Oct 27-31, 2010  
*St. Petersburg*  
<http://www.autospb.messefrankfurt.ru/index.php?lang=en>

### Publications

Autostat Market Research Agency  
[http://www.autostat.ru/Default\\_Eng.asp](http://www.autostat.ru/Default_Eng.asp)

### Commercial Service Contact

Alexander Kansky, Commercial Specialist  
[Alexander.Kansky@mail.doc.gov](mailto:Alexander.Kansky@mail.doc.gov)  
Tel: 7 (812) 326-2581

**Russian Aircraft and Parts Market**

<b>\$ millions</b>	<b>2008</b>	<b>2009</b>	<b>2010 (estimate)</b>
Total Market Size	2,812	4,287	6,067
Total Local Production	3,100	3,777	4,476
Total Exports	2,326	2,288	2,250
Total Imports	2,038	2,798	3,841
Imports from the U.S.	513	597	694

1. Source: Exports and imports for HTS Code 88 are from the Global Trade Atlas.

2. Local production is estimated based upon data available from the United Aircraft Corporation. This data reflects production of aircraft, excluding aircraft parts, and covers both military and civil segments.

The Russian aviation industry remains an important strategic industry and a promising market for foreign suppliers of aircraft equipment. In 2009, state financing of the industry increased twentyfold as compared with 2004. The Russian government, through a special federal program and various types of assistance instruments, plays an active role in supporting the industry in an effort to reach its goal of supplying 5% of the world's aircraft by 2015 and 10% by 2025. United Aircraft Corporation (UAC), a state-controlled corporation established in 2006, spearheads the development of the national aviation industry.

In 2009, the Russian government allocated 19.45 billion rubles (\$644 million)<sup>1</sup> to the development of the industry under a federal program. In addition to traditional types of support, such as direct contributions to UAC's authorized capital and interest rate subsidies on modernization loans, the government also extended new subsidies for loans to support innovation and investment projects. This all signals an increased interest by Russian OEMs and tier suppliers to consider new procurement, which in turn opens broad prospects for U.S. suppliers of aircraft systems, components, machine tools and materials.

Since the Russian aviation industry consists of several intertwined industries (airframe, helicopter, engine building) and submarkets (OEMs, tier suppliers, distributors), opportunities for U.S. suppliers are not limited simply to a certain type of product, but cut across a variety of products along the production chain. These opportunities range from advanced machine tools and aviation materials to software, small and large components and spare parts, and complete on-board systems. Given the complex and multi-layered nature of this market, the total market size is difficult to estimate. However, estimated figures are available for future domestic aircraft needs and domestic aircraft production; this data reflects the dynamic Russian market and potential growth opportunities for U.S. suppliers.

Increasingly, less efficient Russian aircraft are being phased out from key air transport segments and are being replaced with western fleets. Western aircraft now handle approximately 69% of cargo turnover (within Russian and outside of Russia) and 74% of passenger turnover (within Russian and outside of Russia); out of the 74% passenger turnover, 62% of the domestic passenger market is handled by western aircraft. Boeing's 767-300 and Airbus' 320 handle 19% of passenger

<sup>1</sup> Exchange rate used: \$1 = 30.18 rubles



turnover versus the Tu-154M, the most popular domestic model which carried 9.5% of passenger traffic in 2009 (down from 24% in previous years).

Several Russian airlines have announced plans to procure a total of approximately 440 passenger aircraft between 2009 and 2015. It is expected that 35% of these aircraft will be Russian made, such as the An-148, SSJ-100, and Tu-204SM, assuming they will remain competitive with their western analogues.

Major western aircraft giants, Boeing and Airbus, have positive expectations about the domestic market demand in Russia. According to information published by Boeing, the 2009-2028 Russian and CIS market for civil aircraft will amount to 1,050 aircraft or \$90 billion. Airbus' published estimates are 1,030 aircraft or \$90 billion for 2008-28. Out of the \$90 billion, it is believed that \$21.6 billion will be allocated to regional aircraft, \$52.2 billion to narrow body, \$14.4 billion to wide body, and \$1.8 billion to super large aircraft. It is expected that the two major global aircraft manufacturers will capture approximately 50% of this market share.

It is expected that UAC will not consider direct competition with Boeing and Airbus on long haul aircraft to meet national and international market needs. However, it will compete in the regional and short/medium range niche by launching new projects such as the SSJ-100 (Superjet-100), MS-21, and Tu-204SM (modernized Tu-204) as alternatives to the Boeing 737 and the Airbus 320.

The Russian government strategy for 2008-25 is to produce approximately: a) 2,600 civil aircraft (60% for export) with average annual production of 152 aircraft, with levels to increase in later years to an average of 260-290; b) 2,300 military aircraft (major share for export) with average annual production of 110-130 aircraft; and c) 900-950 cargo aircraft (55% for export) with average annual production of 40-60 aircraft. The realization of these figures will depend on UAC's ability to restructure and to consolidate the industry quickly and efficiently. As of January 2010, adjusted production figures indicate that between 2010 and 2012 UAC plans to produce 111 regional aircraft (72 SSJ-100 and 39 An-148), 48 short/medium range aircraft (38 Tu-204 and 10 Tu-214), and 6 long haul aircraft (IL-96) for a total of 165 aircraft (annual average of 55 aircraft). This is considerably fewer than were planned in 2008.

Russian helicopter production levels appear significant - the industry produced 120 helicopters in 2007, 169 helicopters in 2008, and 141 helicopters in 2009. The industry is export oriented with major markets in the CIS countries, Latin America, China, Pacific Rim and Africa. Part of the demand is driven by orders for military helicopters from the Russian Ministry of Defense to meet the Russian army's internal needs.

## **Best Prospects/Services**

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### ***Avionics and Aircraft Systems***

The two major Russian aircraft projects – the Sukhoi Superjet-100 and MS-21 – are examples of continued interest by Russian airframe manufacturers in complete on-board systems from western suppliers. The following types of western systems were used to support these two projects: hydraulics, cabin interior, integrated air management and fly-by-wire flight control, wheels and braking systems, landing gear systems, auxiliary power systems, etc. Suppliers for these designs have already been determined by Russian airframe manufacturers but additional projects are underway. Some opportunities may be available in the aftermarket segment, as Russian manufacturers of aircraft and helicopters as well as some airlines strive to upgrade and modernize their existing fleets using western systems. In the helicopter segment, it is reported

that some foreign customers require that Russian helicopters be equipped with certain western systems (avionics, for example).

### ***Aircraft Engines***

Many Russian airframe manufacturers prefer western aircraft engines as the Russian engine-building industry is still developing. Several European aircraft engine makers have established a presence in Russia to support their market expansion. For many of them, the goal is not simply the sale of engines but also the creation of joint ventures, production localization and joint programs in the market. Opportunities for collaboration may be available both for new projects (SaM146 aircraft engines for the Superjet-100) and in the modernization segment (CFM56 aircraft engines for leading airlines such as Aeroflot, S7 and Transaero). In 2009, a major French holding company called Safran Group signed an agreement with Rostekhnologii to supply rotorcraft engines for Ka-226, Ka-62, and Mi-34 helicopters.

### ***Smaller Aircraft Components***

Smaller items such as amplifiers, control units, accessories, miscellaneous components, and subsystems may be in demand both by Russian OEMs and tier suppliers. In addition, Russian distributors are another target market for such items. Working with distributors may facilitate entry not only into the aviation industry, but also into associated industries, such as electronics, defense, telecommunications, and others.

### ***Machine Tools***

The market for machine tools in the aviation industry is growing due to increasing state funding and the need for modernization of production facilities by airframe manufacturers and tier suppliers. In July 2009, MAG Industrial Automation Systems, the world's largest U.S.-based machine tool company, supplied a titanium profiler machining system to Russian titanium producer VSMPO-Avisma, as part of a 34-machine order to provide critical manufacturing capacity to the newly established Landing Gear Manufacturing Center for Excellence in Verkhnyaya Salda, Russia. The Center, part of the Ural Boeing Manufacturing joint venture between VSMPO-Avisma and Boeing, will produce landing gear components for the Boeing 787, 777, Airbus A380 and A350WXB, and the Sukhoi Superjet 100.

### ***Materials***

UAC is pursuing development of Russian technologies in polymeric and composite materials. In 2009, UAC's Board of Directors approved the company's participation in a new venture called Aerocomposite. The organization will create the technological base for development and production of composite parts that may find their application in the next generation of passenger and cargo aircraft. Special attention will be paid to composite wings for promising aircraft projects, such as MS-21 and the new version of SSJ-100. Given the increased interest in the use of composite materials, there is a critical need for specialized engineering solutions that address the complexities involved in the product development process.

### ***Software***

The Russian aviation industry continues to primarily utilize western software solutions. Siemens PLM Software solutions have been successfully used in many UAC projects and key programs, such as the SSJ-100, to enhance collaboration and optimize workflow. VISTAGY Inc., a leading provider of industry-specific engineering software and services partnered in May 2009 with Innovation Technologies and Solutions (ITS), one of the foremost technology sales and support organizations in the dynamic Russian aerospace market. The partnership will enable ITS to provide the most advanced software for engineering composite aircraft.

The current trend in the Russian aviation industry is to decrease its reliance on imports of complete western air systems and, instead, to emphasize the development of capabilities to manufacture similar products locally. For example, a tender for MS-21 avionics resulted in a cooperative agreement between Rockwell Collins and Russian company Avionica to develop a special avionics system for this aircraft. Further down the value chain, market opportunities are expected to arise for western manufacturers of high-tech machine tools and smaller aircraft components, as the Russian industry continues to build its capacity to produce locally. In the interim, however, western avionics, navigation systems and other large integrated components will continue to be in demand by Russian manufacturers of aircraft and helicopters to meet their current needs, especially in the modernization and the aftermarket segments.

Most Russian OEMs, tier suppliers, and distributors that are active in the aviation industry also manufacture and supply products for other associated industries, such as military and defense, automotive, electronics, and energy. U.S. suppliers may benefit from these synergies.

The links between the defense and aviation sectors are especially strong. Modernization of the Russian military is becoming an important national priority and the state order for arms is expected to grow in the near future. Between 2007 and 2015, the Russian government plans to allocate 4.9 trillion rubles (\$162 billion)<sup>2</sup> to support modernization of the army. The same enterprises that are active in the aviation industry (OEMs and tier suppliers) will receive additional state funding and support under the 2007-17 federal arms program, which will allow them to reinforce their ability to modernize and procure new machine tools and other equipment.

### Trade Events

Participating in trade events remains a critical element in a successful business development strategy for Russia. U.S. companies can meet prospective Russian partners not only at major Russian trade shows, but also at international shows, especially in Europe. Examples include the Farnborough International Air Show, Paris Air Show, and the ILA Berlin Air Show. Besides these major aerospace shows, there are also a large number of specialized exhibitions on such topics as machine tools and aerospace testing. Major Russian and international shows are listed below:

HeliRussia 2010, Third International Helicopter Exhibition  
May 20-22, 2010  
*Moscow*  
<http://www.helirussia.ru/en/index.html>

ILA Berlin Airshow  
June 8-13, 2010  
*Berlin, Germany*  
<http://www.ila-berlin.de/ila2010/home/index.cfm>

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<sup>2</sup> Exchange rate used: \$1 = 30.18 rubles

InterMash 2010, International Industry and Technology Exhibition  
June 30-July 4, 2010  
*Moscow*  
<http://www.intermash-expo.ru/>

Farnborough International Airshow  
July 19-25, 2010  
*Farnborough, UK*  
<http://www.farnborough.com/Site/Content/Farnborough2010/>

Aerospace Testing Russia 2010,  
October 4-6, 2010  
*Moscow*  
<http://www.aerospace-expo.ru/eng/>

MAKS Moscow International Aerospace Salon 2011  
August 2011  
*Moscow*  
<http://www.aviasalon.com/en>

#### **Internet Resources**

<http://www.avia.ru/english>: Russian Aviation News & Information Server  
<http://www.aviaport.ru/>: Aviation News Agency "Aviaport" (only in Russian)

#### **Commercial Service Contact**

Vladislav Borodulin, Commercial Specialist  
[Vladislav.Borodulin@mail.doc.gov](mailto:Vladislav.Borodulin@mail.doc.gov)  
Tel: 7 (495) 728-5235

## Chemical Production Machinery/Industrial Chemicals

### Overview

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### Market Statistics for Chemicals

\$ millions	2008	2009	2010 (estimate)
Total Market Size	41,385	31,998	35,197
Total Local Production	44,365	34,428	37,870
Total Exports	21,630	15,980	17,578
Total Imports	18,650	13,550	14,905
Imports from the U.S.	497	357	445

Source: U.S. Commercial Service estimates

### Chemicals

Despite the 23% decline in the Russian chemical market in 2009, U.S. exporters of industrial chemicals have good potential to increase their share of imports into Russia in 2010 for three key reasons: Experts predict the market will rebound and grow about 10% from last year; there is a continuing lack of domestically produced chemicals; and the difference between the U.S. dollar and Euro exchange rate makes U.S. products more competitive than those imported from Europe.

The U.S. share of Russia's chemical imports has recently varied from 2 to 2.7%. In the plastics sector, according to the U.S. National Association of Manufacturers, Russia's imports from the U.S. in 2008 were \$102 million for resins and \$53 million for plastic products.

Russia currently produces around one percent of the world's chemical products. The Russian chemical products industry includes mineral fertilizers, synthetic plastics and resins, rubber products, synthetic fibers, paints and coatings, synthetic detergents and other chemical products. The Russian industry is fully privatized and is dominated by a number of very large companies, although medium and small companies play an active role. The major players include SIBUR Holding, Nizhnekamskneftekhim, Lukoil-Neftekhim, Eurokhim and many others.

In the past three years, demand for polymers has grown faster than local production, which led to imports' 50% share of the polymer segment and a rise in polymer prices, especially polyethylene.

In 2008, about 60% of domestic production was represented by basic chemicals such as fertilizers, synthetic plastics and resins. During the same period, exports and imports shared about 50% of the total market; however, the product category structure of exports and imports is different. While the bulk of exports are primary chemicals, such as styrene, methanol, and synthetic rubbers, the range of imported product categories is broad and represented by high technological products such as PVC, polystyrene, paints and coatings and chemical fibers.

As a consequence of the global financial crisis impacting Russia at the end of 2008, there was a general drop in demand and local production of all chemicals by 20-25%, as the above table indicates. In 2009, the rate of decline in chemical exports from Russia was higher than that for imports. In the first quarter of 2009, local production of chemicals decreased by 27% compared to the same period in 2008, while exports decreased by 45.5% (\$2.8 billion), and imports fell by

40.7% (\$2.3 billion). In the beginning of 2009, of all chemical imports, plastic products' share decreased to 25.8%, painting materials to 3.9%, and rubber and rubber products to 3.8%; however, the share of plastics and resins increased to 12.9%. In 2009, imports of polymers and rubber represented about 4.5% of all Russia's imports. In 2010, consumption of all polymers in Russia is estimated at 5,516,000 tons.

The Russian Ministry of Industry and Energy has developed a Strategic Development Plan for the chemical industry through 2015, which forecasts the chemical market to reach \$153.2 billion (34% annual growth) by the end of this period. The government's strategy foresees a decrease in imports to 12% (compared to almost 50% now) and the development of domestic production to replace imports of more complicated, secondary chemicals. However, it is unlikely that this import substitution plan will be completed by the target date just five years away.

## **Machinery**

Market statistics for chemical machinery are not available; however this sector is heavily skewed toward imports. For example, 100% of molding and extrusion equipment used by Russian chemical companies is imported.

The traditional leading exporters of extrusion machinery into Russia are China and Taiwan (that together take about 30% market share), Germany (12%), Italy (11%), and Austria (6%). Imports of injection molding machinery into Russia come from China (50%), Germany (13%), Taiwan (12%), South Korea (8%), Italy (7%), Austria (5%), Ukraine (2%), and Switzerland (1%).

Top suppliers of plastic processing equipment and, consequently, major competitors to U.S. manufacturers, include Demag (Germany), Chen Song (China), Ningbo Shuangma Plastic Machinery Manufacturing Co. (China), Krauss-Maffei (Germany), Battenfeld (Germany), Olmas (Italy), Husky (Canada), and Greiner Extrusion (Austria).

## **Best Prospects/Services**

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### **Chemical Products**

- Polyethylene materials
- PVC sheets
- PVC films (furniture, posters)
- Polyolefin films
- PET films
- Polypropylene sheets
- Geomembranes

Domestic producers of chemical and plastic materials can currently meet only 50% of market demand. This dynamic provides good prospects for chemicals and plastics from U.S. suppliers, which can use a difference in the euro/dollar exchange rate to their pricing benefit.

### **Machinery**

- Injection molding machines
- Extrusion equipment

Investment in the development of the chemical sector is crucial for the Russian economy and provides U.S. machinery suppliers an opportunity to sell their chemical and plastic processing equipment. The Russian government's plan for the development of the chemical industry, noted above, will be crucial for funding these purchases.

## **Opportunities**

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The competitive situation in the chemical market will force local producers to upgrade their technologies to meet growing demand for new materials and products. In the next five years, the best opportunities for U.S. exporters will be production equipment and materials that can enable local manufacturers to gain a higher market share in quality chemical secondary products, such as PVC, ABS, and polyethylene products.

## **Resources**

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### **Organizations**

Plastinfo – Plastics Industry Directory  
[www.plastinfo.ru](http://www.plastinfo.ru)

### **Trade Events**

International Chemistry Assembly  
September 27-30, 2010  
*Moscow*  
[www.chemistry-expo.ru](http://www.chemistry-expo.ru)

Interplastica 2010  
January 25-28, 2011  
*Moscow*  
[www.interplastica.ru](http://www.interplastica.ru)

### **Publications**

The Chemical Journal  
<http://www.tcj.ru>

### **Commercial Service Contact**

Marina Kamayeva, Commercial Specialist  
[Marina.Kamayeva@mail.doc.gov](mailto:Marina.Kamayeva@mail.doc.gov)  
Tel: 7 (812) 326-2583

## Consumer Electronics

### Overview

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\$ millions	2008	2009	2010 (estimate)
Total Market Size	28,500	18,500	19,200
Total Local Production	6,000	3,000	3,200
Total Exports	2,500	1,500	2,000
Total Imports	25,000	17,000	18,000
Imports from the U.S.	1,750	1,200	1,260

Source: U.S. Commercial Service estimates.

The Russian consumer electronics market includes telephones, MP3 players, home and automotive audio/video equipment, personal computers, TV sets, calculators, GPS automotive navigation systems, home security and automation products, products for playback and recording of digital video and audio media, digital cameras and camcorders, and other products for entertainment and communications.

Before the recent economic crisis, the consumer electronics market was one of Russia's most developed and most competitive retail sectors with annual growth rates ranging from 10% to 25%, depending on the product. According to data published by GFK-Russia (a subsidiary company of the German GFK-Group), the size of the combined consumer electronics and household appliances markets in Russia was \$36.8 billion in 2007 and \$40.6 billion in 2008.

In 2009, Russia's consumer electronics market drastically declined. Industry experts estimate that it decreased by 35% and reached only \$18.5 billion; but they also predict that the market will recover and return to strong growth as the general economy improves over the next few years.

Based on expert evaluations, the U.S. Commercial Service estimates the following 2009 sales volumes for key product groups:

Product Category	2009 \$ Million	% change from 2008
Audio/video equipment	4,900	-20
Personal computers, components, and accessories	6,600	-35
Mobile, radio phones and other telecommunication devices	4,400	-40
Photo equipment	1,000	-37
Home office equipment and consumables	1,600	-44
Total	18,500	-35

The major portion of the consumer electronics market is occupied by products imported from Asia, Europe, and the United States. All major global brands are represented in Russia and



have wide recognition. Local production is low and mostly represented by IT manufacturers and ODMs (original design manufacturers) providing EMS (electronics manufacturing services) for contract manufacturing of CRT, PDP, and LCD TVs, as well as DVD players under the Sony, Panasonic, Akai and other well-known marks.

About 50% of consumer electronics marketed in Russia are sold by several of the largest retail chains that have hypermarkets and stores located in Moscow, St. Petersburg and other large cities. Another 25% are sold by regional chains, while the rest is sold by small retail companies and through the internet.

Accurate figures for the consumer electronics market in Russia are difficult to determine due to a large number of so-called “grey market products” imported into the market. However, with the growth of the largest retail chains, whose market share will increase, a corresponding decrease in “grey market” goods is expected. According to the Russian Association of Trading Companies and Manufacturers of Consumer Electronics (RATEK), 100% of mobile phones, about 50% of notebook computers, nearly 80% of LCD and PDP TVs, and over 20% of photo and digital video cameras are legally imported into Russia, and their share is increasing. The U.S. consumer electronics share of the Russian market is mostly represented by IT products, high-end audio products, automotive audio and navigation products, home security and automation products, and mobile phones.

#### **Best Prospects/Services**

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- Audio/video equipment
- Automotive audio and navigation products
- Home security and automation products
- Multi-media
- Wireless and networking products

#### **Opportunities**

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Prior to the impact of the global economic crisis on the Russian market that began in late 2008, the consumer electronics sector was recognized as one of the fastest growing in Europe. During the crisis, however, customers started to save on purchases of consumer electronics, which are discretionary items for Russians. The market's future direction is difficult to predict but analysts believe that it will begin to recover in 2010 with growth of about 4-5%.

New highly advanced products are in constant demand, however, and these sales show continuing growth. As most of these products are imported and there is always strong demand for the latest and most technological categories, solid opportunities exist for U.S. companies, particularly in high quality electronics gear and modern digital electronic products. High-end mobile phones, particularly the latest smart phones, are highly sought-after status symbols for Russian consumers. Automotive navigation products are increasing in use, particularly on Moscow's spread-out and congested roadways. Quality, functionality and uniqueness are competitive advantages. For these reasons, Russia remains a significant international market for U.S. consumer electronics.

**Organizations**

Russian Association of Trading Companies and Manufacturers of Consumer Electronics (RATEK)

<http://www.ratek.org>

**Trade Events**

HDI Show 2010

April 15-18, 2010

*Moscow*

<http://www.hdi.ru/en/hdishow>

Integrated Systems Russia 2010

December 7-9, 2010

*Moscow*

<http://www.isrussia.ru/en/isrussia>

Hi-Tech Building & House 2010

December 7-9, 2010

*Moscow*

<http://www.hthb.ru>

**Commercial Service Contact**

Misha Minkevitch, Commercial Specialist

[Misha.Minkevitch@mail.doc.gov](mailto:Misha.Minkevitch@mail.doc.gov)

Tel: 7 (812) 326-2560

## Cosmetics/Toiletries

### Overview

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\$ millions	2008	2009	2010 (estimate)
Total Market Size	9,335	8,435	8,540
Total Local Production	4,500	4,200	4,200
Total Exports	165	165	160
Total Imports	5,000	4,400	4,500
Imports from the U.S.	171	116	110

Source: Estimates by industry experts and U.S. Department of Commerce databases.

The Russian cosmetics and toiletries market has been experiencing steady growth and has been one of the fastest growing industry sectors in Russia during the last decade, with growth of 10-15% prior to 2008. According to L'Agence de Lux, in 2008, the total value of the Russian cosmetics and toiletries market was approximately \$9.3 billion. However, because of the global economic slowdown and the impact it had on Russia in 2009, the market is estimated to have contracted by approximately 10%. 53% of the market consists of imported products.

According to the Aginsky Consulting Group, the largest market segments of the Russian cosmetics and toiletries sector are: hair-care (18%), make-up (17.7%), skin care products (13.3%), perfumery (12%) and bath products (10%). Anti-aging, anti-blemishing, curative cosmetics, spa, pedicure and manicure products are also fast growing subsectors in the cosmetics industry. Russians spend a significantly higher portion of their income (12%) on cosmetic products than do their overseas counterparts.

Domestic manufacturers have a 47% share of the mass-market and middle-market brands. Major manufacturers like Kalina, Nevskaya Kosmetika, Svoboda and Faberlic produce both mass-market and higher-end skin care products, which are considered on par with western luxury market quality standards. The competition between foreign and local manufacturers in the mass-market and middle-market segments is intense. Generally, foreign producers outpace local ones in the use of new technologies in the manufacturing process and larger marketing and advertising budgets.

The market recently experienced profound changes in distribution with retailers becoming the key players in the market versus distributors. According to L'Agence de Lux, cosmetics and toiletries distribution channels include:

- Cosmetic retail chains (30%)
- Department stores (25%)
- Direct sales (20%)
- Pharmacies (10%)
- Outdoor markets (10%)
- Internet-sales, concept-stores (5%)

Distributors are shifting their business from developing wholesale trade to expanding retail chains. Specialized retail chains such as L'Etoile, Ile de Beaute and Ives Rocher, with outlets in all major Russian cities, are showing the fastest growth rates.

The assortment of products in retail chains has changed, too, with middle-market and mass-market brands complementing exclusive products. The share of mass-market products in retail chains has grown to 20%. An additional channel for mass-market and middle-market brands, as well as for curative cosmetics, is pharmacies, especially pharmacy chains. Russian consumers perceive cosmetics sold through pharmacies to be safer and more effective.

A new and recent trend in market development is a shift in the overall market share from Moscow to the Russian regions. Currently, the ratio between large cities and regional cities is 50/50. This is especially true in cities with a population of over one million and where there are a substantial number of people with high purchasing power.

The last several years have been characterized by a rapidly growing demand for high quality and customized cosmetic products. Both foreign and local manufacturers have succeeded in creating awareness and educating consumers about different skin and hair types, as well as the advantages of using a full range of skin and hair products.

Because of the economic downturn, however, while consumers continue to spend money to make their skin look better, visits to spas and beauty salons are becoming less regular; thus, there is a growing demand for professional products for home use. When the ruble depreciated in late 2008/early 2009, prices for imported cosmetics and toiletries increased by 30-40%. This intensified demand for mass-market products with a combination of affordable price and good quality.

#### **Best Prospects/Services**

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The best sales prospects for U.S. export includes the following categories: make-up, skin and hair care products in all market segments, professional skin care products for home use, spa products and treatments, beauty and hair salon products and equipment, anti-aging cosmetics, natural cosmetics, curative and professional products, manicure and pedicure products, and cosmetics for men and children.

#### **Opportunities**

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The total current value of the Russian beauty products market is approximately \$8.4 billion with 53% of the market consisting of imported products. Russian consumers traditionally trust foreign brands more than local ones because they guarantee consistent quality. According to industry specialists, the future of the Russian cosmetics and toiletries market is in niche marketing and narrow customization. Given intense competition between foreign and local manufacturers, especially in the mass-market and middle-market segments, the cost of entering and developing the market is now higher.

Success will depend on larger investments in advertising, marketing and promotion, including participation in specialized trade shows. U.S. manufacturers can improve their market visibility by offering exclusive cosmetic products and by employing qualified agents/distributors. Price continues to be the most competitive factor limiting export opportunities. U.S. producers may consider opening a representative office to conclude agreements with retailers directly or establishing manufacturing facilities in Russia and partnering with local companies to make their products more competitive.

**Organizations**

Cosmetics-Perfumery Russian Association

<http://www.pcar.ru>

Expo Media Group Staraya Krepost (organizer of specialized events and publisher)

<http://www.cosmopress.ru/eng>

National Alliance of Cosmetologists and Dermatologists

<http://www.nadc.ru>

**Trade Events**

Intercosmetics

March 9-11, 2010

*Moscow*

[http://www.intercosmetics.ru/index\\_eng.html](http://www.intercosmetics.ru/index_eng.html)

Intercharm Professional

April 22-24, 2010

*Moscow*

<http://www.intercharmpro.ru>

Intercharm

October 21-24, 2010

*Moscow*

<http://eng2009.intercharm.ru>

Medicine and Beauty Forum

November 18-20, 2010

*Moscow*

<http://www.med-beauty.net/en>

KosmetikExpo

February 2011

*Moscow*

<http://www.ki-expo.ru/en>

**Publications**

Salon-expert (specialized edition for spa and beauty salons owners)

<http://www.salon-expert.ru>

Kosmetika optom (cosmetics portal)

<http://kosmetikaoptom.ru>

Intercharm (perfumery and cosmetics portal)

<http://www.intercharm.net/eng>

Kosmetik International (magazine)

<http://www.ki-online.ru/en>

Cosmetics and Perfumery (magazine)

<http://kosmetika.potrebitel.ru>

Cosmetics and Medicine (magazine)

<http://www.cmjournal.ru>

Make-up portal

<http://www.make-up.ru>

Cosmomir (perfumery and cosmetics portal)

<http://www.cosmomir.ru>

Cosmetics in Russia (perfumery and cosmetics portal in English)

<http://www.cosmeticsinrussia.com>

**Commercial Service Contact**

Irina Podsushnaya, Commercial Specialist

[Irina.Podsushnaya@mail.doc.gov](mailto:Irina.Podsushnaya@mail.doc.gov)

Tel: 7 (4232) 499-381

## Electric Power Generation & Transmission Equipment

### Overview

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(billion Kwh)	2008	2009	2010 (estimate)
<b>Electricity Generation</b>	1023.3	978.6	1012.0
<b>Electricity Consumption</b>	1006.4	964.4	986.3
<b>Electricity Exports</b>	16.9	14.2	25.7

Source: Russia System Operator.

Russia holds the world's largest natural gas reserves, second largest coal reserves, and eighth largest oil reserves. It is the fourth largest generator and consumer of electricity in the world; its 440 power stations (77 coal-fired) have an installed generation capacity of 220 GW. The grid links over two million miles of power lines, 93,000 miles of which are high voltage cables over 220 kV. Electricity generation is based largely on thermal (gas - 46%, coal - 18%), hydro (17%), and nuclear (16%) power. 60% of thermal generation is from combined heat and power plants (CHP). Russia operates 31 nuclear power reactors in 10 locations, with an installed capacity of 21 GW. Despite considerable geothermal, wind and wave resources, renewable energy production accounts for less than one percent.

In 2002, the Russian government began reforming the power sector. The main goal was, and remains, to upgrade the aging and outdated heating and electricity infrastructure. The restructuring involved the separation and privatization of the generation, transmission and sales companies. The grids were brought under regulatory supervision. Power generation was divided up into seven wholesale generating companies (OGK), 14 territorial generating companies (TGK), independents and state-owned entities. OGKs contain power plants and specialize mainly in electric power generation. TGKs contain predominantly combined heat and power plants (CHPs). The gradual liberalization of the electricity market (currently at 60%), due to be completed in 2011, should allow producers to charge market prices.

Foreign and domestic companies have invested about \$27 billion in the sector; as a condition of their investment, they committed to create 186 GW of new capacity by 2020. However, due to decreased demand for electricity and changes in plans of big industrial electricity consumers since the onset of the economic crisis, the Russian government has allowed certain companies to alter investment plans, including delaying construction or moving plants. According to a recent study by KPMG Consulting, the Russian electricity sector will require \$500 billion investment over the next decade to avoid regional blackouts and meet future demand. This will include installing new generating capacity and significantly modernizing what is currently installed.

The European Bank for Reconstruction and Development has invested in many of the new power generating companies. In addition, as part of its crisis response actions in its Russia strategy for 2009-2012, EBRD states it will provide support to both private and state-owned power companies, with balance sheet restructuring, refinancing, liquidity support or financing of investment shortfall for priority projects with high energy efficiency parameters. There are already signs of a moderate recovery in electricity demand in early 2010 and industry experts predict that the demand for power equipment will reach the pre-crisis level by 2011-12.

Russian equipment producers are also modernizing their production. Power Machines (Siloviye Mashiny) is the market leader with a share of over 50%. It unites production, supply, construction, maintenance and modernization of equipment for thermal, nuclear, hydraulic and gas turbine power plants. The following big international energy equipment holdings are well established and have joint ventures or their own production facilities in Russia: General Electric, Siemens, Alstrom, ABB, Skoda Power, Mitsubishi Heavy Industries, Ansaldo Energia, and Areva.

## **Best Products/Services**

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Over the past few years, there has been a growing demand for highly technological equipment in the electricity sector, required for heat and power plant construction and modernization, which cannot be met by Russian manufacturers alone. High capacity gas turbine technologies (gas turbines >250 MW) are in demand, as domestic manufacturers are not active in this production area. (Russian producers are competitive in the production of 200-1200 MW power stations working with different kinds of fuel.) Power companies also seek ultra supercritical steam turbines, waste heat recovery boilers, high voltage power transformers, compressors, process control systems, hardware components for microprocessors and semiconductors, etc.

## **Opportunities**

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The most competitive markets are concentrated around the cities of Moscow and St. Petersburg, whereas the regions are considered growing markets. Western equipment is usually installed in newly built infrastructure, while existing equipment is mainly maintained with locally produced equipment and to a lesser extent upgraded with Western devices.

Russia is generally very receptive to U.S. products. Companies such as General Electric, Dresser-Rand, and Compressor Controls Corporation are present in the Russian market and their products are available either directly or through representatives or distributors. Imports from third countries are also growing. U.S. firms encounter increasing competition in the Russian market from European and Chinese manufacturers.

Tenders for energy projects are processed through the world's largest marketplace for power generation equipment online at [www.b2b-energo.ru](http://www.b2b-energo.ru). Most of the OGKs and TGKs also have their own marketplaces on their websites. A foreign vendor needs to keep in mind that paper documentation for tenders is generally required in the Russian language. The power stations officially publish tenders for some renovation tasks. For major projects, they work with specialized engineering, procurement and construction companies (EPCs).

Current information about new tenders, analytical materials, regulatory documents, application procedures and other participation requirements may be found at <http://tenderenergo.ru>. The website is in Russian and intended for local representatives of foreign companies and Russian power supply firms. Information on state procurement (government purchases) can also be found at <http://www.b2b-energo.ru/?lang=eng>.

The Russian government has stated that it intends to expand the role of nuclear and hydro-power generation in the future, to allow for greater export of fossil fuels, with a plan to increase nuclear generation to twice its current level. However, many nuclear plants are due for decommissioning and meeting such a target will require billions of dollars of investment per year over the next decade.



## Resources

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Russian Ministry of Energy	<a href="http://www.minenergo.gov.ru">http://www.minenergo.gov.ru</a>
Rosatom - Federal Agency for Nuclear Energy	<a href="http://www.rosatom.ru/en/">http://www.rosatom.ru/en/</a>
Press Center of Nuclear Energy and Industry	<a href="http://www.minatom.ru/en/">http://www.minatom.ru/en/</a>
System Operator	<a href="http://www.so-cdu.ru">http://www.so-cdu.ru</a>
Unified National Electric Grid	<a href="http://fsk-ees.ru/eng/">http://fsk-ees.ru/eng/</a>

The OGK and TKG websites (many also in English) may also contain information about each company's investment, procurement and production plans.

OGK-1	<a href="http://www.ogk1.com/en">http://www.ogk1.com/en</a>	TGK-4	<a href="http://www.eng.tgk-4.ru/c1.php">http://www.eng.tgk-4.ru/c1.php</a>
OGK-2	<a href="http://www.ogk2.ru/eng">http://www.ogk2.ru/eng</a>	TGK-5	<a href="http://en.tgc5.ru/eng.html">http://en.tgc5.ru/eng.html</a>
OGK-3	<a href="http://www.ogk3.ru/en-main">http://www.ogk3.ru/en-main</a>	TGK-6	<a href="http://www.tgc6.ru/index.php?id=news&amp;L=1">http://www.tgc6.ru/index.php?id=news&amp;L=1</a>
OGK-4	<a href="http://www.eng.ogk-4.ru">http://www.eng.ogk-4.ru</a>	TGK-7	<a href="http://www.en.votgk.ru">http://www.en.votgk.ru</a>
OGK-5	<a href="http://www.ogk-5.com/en">http://www.ogk-5.com/en</a>	TGK-8	<a href="http://www.tgk-8.ru">http://www.tgk-8.ru</a>
OGK-6	<a href="http://www.ogk6.ru/en">http://www.ogk6.ru/en</a>	TGK-9	<a href="http://www.tgk9.ru/eng.html">http://www.tgk9.ru/eng.html</a>
RusHydro	<a href="http://www.eng.rushydro.ru">http://www.eng.rushydro.ru</a>	TGK-10	<a href="http://www.fortum.ru">http://www.fortum.ru</a>
		TGK-11	<a href="http://www.eng.tgk11.com">http://www.eng.tgk11.com</a>
TGK-1	<a href="http://eng.tgc1.ru">http://eng.tgc1.ru</a>	TGK-12	<a href="http://www.kuzbassenergo.ru/eng">http://www.kuzbassenergo.ru/eng</a>
TGK-2	<a href="http://www.tgc-2.ru/en">http://www.tgc-2.ru/en</a>	TGK-13	<a href="http://eng.tgk13.ru">http://eng.tgk13.ru</a>
TGK-3	<a href="http://www.mosenergo.ru">http://www.mosenergo.ru</a>	TGK-14	<a href="http://tgc-14.ru">http://tgc-14.ru</a>

## Trade Events:

Russia Power  
March 24-26, 2010  
*Moscow*  
<http://www.russia-power.org>

Power Industry and Electrical Engineering  
May 10-14, 2010  
*St. Petersburg*  
<http://www.restec.ru/exhibitions/featured/power>

Efficient Power Engineering in Industrial and Municipal Sectors  
May 25-28, 2010  
*St. Petersburg*  
<http://www.en.farexpo.ru/energy>

AtomExpo  
June 7-9, 2010  
*Moscow*  
<http://2010.atomexpo.ru/en/exhibition>

Electric and Power Infrastructure Sochi  
October 10-12, 2010  
*Krasnodar*  
<http://idos-expo.ru/eng/exhibitions/epis>

Atomic Energy & Electrical Engineering, Power Machinery Construction  
October 26-28, 2010

*Moscow*

<http://www.inconex.ru/eng>

Power Electronics, Energy and Energy Saving  
November 30-02 December 2010

*Moscow*

<http://power.primexpo.com>

**Commercial Service Contact**

Anna Avetisyan, Commercial Specialist

[Anna.Avetisyan@mail.doc.gov](mailto:Anna.Avetisyan@mail.doc.gov)

Tel: 7 (495) 728-5405

## Green Technology/Energy Efficiency

### Overview

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Russia's economy utilizes three times more energy than European OECD countries and Japan. Part of this is explained by colder temperatures throughout Russia and a higher level of demand and consumption. However, the lack of energy efficiency in building construction and materials, and outdated equipment and factories, accounts for a large percentage of this waste. The energy savings potential is estimated at over 45% of Russia's current energy consumption. In 1994, the City of Moscow adopted new construction standards to improve the energy efficiency in buildings. Over half of Russia's regional governments subsequently followed the same course of action.

Russia is beginning to focus more on issues related to energy efficiency and green building and this is supported by a 2009 decree vowing to reduce Russia's energy consumption by 40% by the year 2020. A new Federal Law called "On Energy Savings and Improving Energy Efficiency" was approved on November 18, 2009. It defines requirements for Russian regional and local energy saving programs, as well as requirements related to energy efficiency in buildings and energy audits. The law focuses on areas related to light bulb usage and utility metering. In order to save costs associated with monthly electricity bills, both in the private and public sectors, Russia is planning to reduce the usage of incandescent bulbs and gradually phase them out completely. Also, individual apartment water metering is planned as a way to conserve both water and energy.

The development of sustainable buildings and compliance with world environmental standards is still in its nascent stage in Russia. Experts agree that it is very hard to say when green products will gain popularity in Russia, as at the moment the Russian population is not very concerned with environmental issues and what products they buy or what methods are used to dispose of those products.

Most developers in Russia are also not focused on utilizing green technologies. Their main aim is to spend as little as possible on construction and to sell for as much as possible. Given that the market does not yet appear to have sufficient demand for "greener" buildings, developers do not have significant incentive to offer properties with such features. Russians believe that green products only increase the cost of the property. According to NCC Group, a Scandinavian developer with a significant presence in Russia, the cost for a project which uses green technologies increases by 10-15%; however, in the long run such technologies save operational and other costs.

Despite the still budding sector, it is noteworthy that energy efficiency is not a completely unheard of concept in Russia. For example, during Soviet times, the Russian central heating system was set up with a two-door entering design so as not to allow warm air to escape the building. Additionally, old Soviet buildings are considered to have been built with good insulation.

As for green building standards, Russia is currently using both BREEAM (Building Research Establishment Environmental Assessment Method) and LEED (Leadership in Energy and Environmental Design). BREEAM appears more popular because it can be adapted specifically to any country according to cultural and climate standards, as well as local laws and rules. Currently, four business centers in the Moscow area are certified according to BREEAM standards. These include Ducat Place III (<http://www.hines.com>), Arcus Space

(<http://www.clearlink.ru>), Coalco (<http://www.coalco.ru>) and White Square (<http://www.aiglincoln.com>). Approximately ten more buildings in Moscow and St. Petersburg are exploring BREEAM and LEED certification. Additionally, the SKF bearing factory in Tver is registered to be LEED certified.

In addition to BREEAM or LEED certification, there are several companies leading the path to energy efficient projects in Russia. Since March 2008, YIT (<http://www.yit.ru>) has been utilizing energy efficient technologies in the construction of its projects. In the third quarter of 2009, Horus Capital (<http://www.horus.ru>) opened the Lootch Business Center (<http://www.workingprime.com>), an old factory that was converted into an office building and utilizes energy efficient technologies. AECOM (<http://www.aecom.com>) applied environmentally friendly techniques to its GE fit-out projects (called Ecomagination) for GE Energy at LeFort and GE Healthcare in Moscow City.

## **Best Products/Services**

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Eventually, the Russian market will become “green” and opportunities for manufacturers and suppliers of various sustainable and energy efficient products and technologies will grow. Possibilities for future growth areas include insulation and heating systems. Non-toxic building products will likely gain popularity. “Smart home” technology should also attract a great deal of interest from Russian consumers. To be successful in the Russian market, it will be necessary to make a significant capital and time investment to promote such technologies in Russia.

## **Opportunities**

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For the time being, there are few companies beginning to include new green technologies in building plans and other projects. However, it is believed that opportunities in this market will grow substantially over the coming years. “As the market becomes more mature, the sophistication of the buyer will increase and demand will move towards utilizing the latest technology”<sup>3</sup>. Therefore, local customers will eventually turn towards sustainable building, construction methods and products. Although “the low cost of energy resources has not forced the government or the public to move quickly to accept new sustainable technologies, as the financial and environmental benefits of conserving energy become more widely known, the public will begin to expect them.”<sup>4</sup>

The Sochi 2014 Olympic Games are just one example of where energy saving technologies will be implemented - the International Olympic Committee has mandated that certain standards be met. If such technologies prove to be successful in Russia, this could be an important catalyst in turning Russia “green.” Further, there are several large-scale green sustainable projects that will be soon built in Russia and may present some opportunities for U.S. exporters:

- NCC (<http://www.ncc-spb.ru/en>) is building a housing development in St. Petersburg called Swedish Krona. This will be an apartment block area with a park, playgrounds, sport facilities, shops and parking. NCC is planning to use various new construction technologies, including energy efficient materials, to build a comfortable city living place that meets European standards.

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<sup>3</sup> (Real Estate Quarterly, Q4, 2008)

<sup>4</sup> Ibid

- BTK ([www.btkdevelopment.ru](http://www.btkdevelopment.ru)) is in the process of developing a project for an energy efficient office building in the center of St. Petersburg (2000 sq. meters). The company is planning to build this project according to LEED standards and receive the appropriate certification.
- Setl City ([www.setlcity.ru](http://www.setlcity.ru)) is beginning to develop a project called Sem Stolits ([www.7stolic.ru](http://www.7stolic.ru)), which will utilize the principles of energy efficiency including a collector heating and water supply system, specially designed sanitation facilities and energy-efficient insulation and windows.

## Resources

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### Organizations

Ecostandard

Ecological services and expertise - 1<sup>st</sup> organization certified by U.S. Green Building Council  
<http://www.ecostandard.ru/en>

*Green Building Council Russia*

<http://www.rugbc.org/lang/en>

### New Law on Energy Efficiency

<http://www.bakermckenzie.com/ALRussiaNewDevelopmentsSavingEnergyJan10>

### Trade Events

Energy Efficiency and Equipment

March 25-28, 2010

*Tyumen*

<http://expo72.ru/vistavki/press/2010/03/25/13>

Wastetech

May 31-June 3, 2011

*Moscow*

<http://w2009.sibico.com>

<http://www.sibico.com/wt2005i>

### Commercial Service Contact

Valeria Khalina, Commercial Specialist

[Valeria.Khalina@mail.doc.gov](mailto:Valeria.Khalina@mail.doc.gov)

Tel: 7 (495) 728-5245

## Medical Equipment

### Overview

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\$ millions	2008	2009	2010 (estimate)
Total Market Size	2400	3300	3500
Total Local Production	670	540	600
Total Exports	100	70	90
Total Imports	1830	2830	2990
Imports from the U.S.*	162	137	170

Source: Remedium and industry experts

\* USITC Dataweb

Russia has instituted a comprehensive reform of its healthcare system and healthcare is “Priority #1” in the government’s new national priority projects. Russia’s healthcare system is evolving rapidly and this is creating many promising areas for U.S. medical equipment exports. It is currently estimated that only 20% of the Russian population of 142 million has access to quality healthcare. The majority of hospitals and polyclinics are public and belong to federal, regional or local governments.

At the moment, the two major sources of public healthcare funding - mandatory insurance funds (30%) and spending supported by federal and regional budgets (70%) - do not cover all healthcare expenses. As a result, a significant portion of overall (public and private) health care spending (about 20%) is covered out of patients’ pockets. Voluntary healthcare insurance programs account for approximately one-third of the total private healthcare expenditures. According to long-term reform plans, mandatory insurance funds will serve as the main source of healthcare funding, providing transparency and control over cash flow within the system. However, despite the ongoing healthcare reforms and significant increases in federal and regional budget allocations for healthcare, financing remains insufficient to address the needs of the industry.

The Ministry of Health and Social Development has developed a document called “Health Care Through 2020.” According to Health Minister Golikova, this document will be incorporated into a long-term strategy of social and economic development.

The Russian medical equipment and supplies market is one of the fastest growing sectors of the economy. Despite the severe economic contraction in 2009 the total volume of medical equipment and supplies in Russia grew 38% to reach \$3.3 billion. This puts the market among the 20 fastest growing markets in the world, yet annual per capita spending is a very low \$23. Industry experts predict that the market will grow at a rate of 5.5% per year, reaching \$4.3 billion by 2014 or \$31 per capita.

Almost two-thirds of the medical equipment and devices used in public clinics and hospitals are obsolete and need replacement. Russia itself does not produce much high-end medical equipment and must rely almost exclusively on imports. The Federal Service on Surveillance in Healthcare and Social Development of the Russian Federation (Rosdravnadzor) has approved over 20,000 medical products and devices for use in treatments, 60% of which are locally manufactured (appliances - 3,000, equipment - 1,000, instruments - 7,000, glass and polymer medical products - 700). About 1200 Russian enterprises, 90% privately held, manufacture an array of medical devices, including apparatus and appliances (45%), medical instruments

(10%), medical equipment (9%), glass and polymer medical products (10%), other medical products (26%).

According to various sources, imported medical devices constitute 60% of the Russian market. The statistical data show that 40-45% of imports come from Germany, 20-25% from the U.S., 10% from Japan and 5% each from Italy and France. For the last three years, a growing number of cheap analogues from China and Pakistan have entered the Russian market in large volumes.

Russian medical equipment manufacturers are making some progress in several traditional and developing segments. First, most routine X-ray diagnostic procedures are done on Russian-made equipment. Apart from that, the Russian medical device market is well represented by monitors for various uses, including those for intensive therapy, surgical operations, pregnancy and at the patient's bedside. Also, Russian companies manufacture certain models of electrocardiographs, encephalographs and rheographs.

A particular focus of Russian manufacturers (usually 15% of the products made at any given plant) is on producing surgical tables, lighting systems, sterilization equipment, cameras for disinfection, beds and medical furniture. The Russian manufacturer KB Vzlet developed the "Kosmea" apparatus used for cardiac artery bypass surgery that works without an artificial blood-circulation apparatus. "Trekpor Technology" Holdings developed an industrial [magnetic-resonance accelerator](#) for the production of membranes.

## **Best Products/Services**

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Despite recent breakthroughs and the fact that locally made medical equipment is two to four times cheaper than imported equipment, Russian production still lags behind the majority of developed countries. Thus, Russia is still dependent on imports for a significant number of medical equipment industry sub-sectors, especially those requiring large investments in R&D, innovative technologies and automation. The best prospects for medical equipment include:

- Computer tomographs
- Blood pressure instruments and equipment
- Respirators
- Endoscopes
- Ultrasound scanning equipment
- Syringes, catheters, dental disposables, ophthalmological equipment
- X-ray equipment for general medicine, surgery and veterinary
- Artificial kidney complex components (oxygenators and dialysis machines)

Due to the aspiration of the Russian government to increase domestic capacity, there is a developing trend of cooperation between Russian and U.S. medical equipment firms. For example, at the end of 2008, GE Healthcare and one of the leading local manufacturers, Medical Technologies Limited (MTL), announced a strategic partnership to make diagnostic imaging equipment in Russia. The Ural Optical and Mechanical plant bought a license from the German company Siemens to produce a computer tomograph (CT). Cooperation between the JSC Ural Priborostroitelny plant and Italian manufacturers resulted in production of an ultrasound scanning instrument that won one of the tenders for the National Health Project. Finally, the Izomed company successfully manufactures another ultrasound diagnostic instrument in cooperation with a Japanese company. Such joint cooperation can bring

accessible, innovative and modern healthcare technologies to support Russian government projects modernizing healthcare in various disease areas.

## Opportunities

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Recent reforms in healthcare have created opportunities for U.S. medical equipment suppliers. In September 2005, President Putin announced that healthcare would be one of four key national projects, along with education, housing and agriculture. President Dmitry Medvedev (first Deputy Prime Minister beginning in November of that year) was in charge of these projects. The total federal budget allocated under the National Health Project in 2006 was \$4 billion (excluding loans and state guarantees) and nearly \$5 billion in each of the following years.

In 2010 the National Health Project will be financed at \$4.8 billion. The Project is designed to significantly improve the Russian healthcare sector, giving impetus to both the pharmaceutical and medical equipment markets. The implementation of the project is supported by laws and regulations, which will modify the healthcare system structure over the long term. Key laws and regulations include laws on state guarantees for medical assistance, mandatory health insurance, and standards of medical assistance.

The National Health Project will focus on developing the following main areas in 2010, which should be of interest to U.S. manufacturers and exporters of medical equipment:

- Heart, blood and vascular diseases, including construction of medical centers in this field (\$104 million)
- Preventive measures and treatment of tuberculosis (\$133 million)
- Cancer (\$167 million)
- Development of blood donation centers (\$150 million)
- Maternal care that will include construction of birthing centers in St. Petersburg and other regional centers (\$200 million), development of programs for neonatal and audiologic screenings (\$14.7 million for disposables and \$6.3 for equipment).

## Resources

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### Organizations

Ministry of Health and Social Development

<http://www.minzdravsoc.ru>

Russian Federal Service on Surveillance in Healthcare and Social Development

<http://www.roszdravnadzor.ru>

Federal State Enterprise Scientific Center for Testing Medical Products

<http://www.regmed.ru>

Center for Sanitary and Epidemiological Norm-setting, Hygienic Certification and Expertise of the Ministry of Health and Social Development

<http://www.crc.ru>



## **Trade Events**

Zdravookhranenie, International Exhibition of Medical Equipment and Drugs  
December 6-10, 2010

*Moscow*

<http://www.zdravo-expo.ru/en>

## **Commercial Service Contact**

Yuliya Vinogradova, Commercial Specialist

[Yuliya.Vinogradova@mail.doc.gov](mailto:Yuliya.Vinogradova@mail.doc.gov)

Tel: 7 (495) 728-5586

## Restaurant Equipment

### Overview

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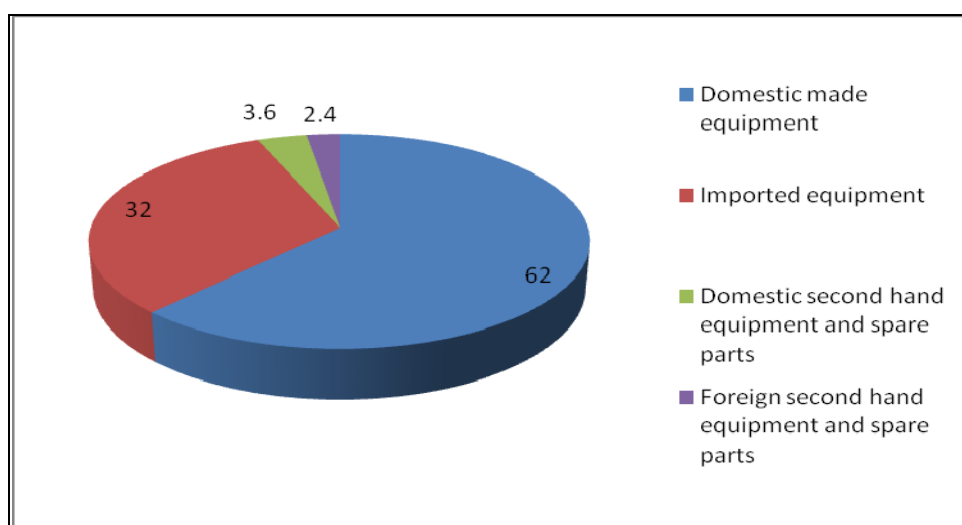
\$ millions	2008	2009	2010 (estimate)
Total Market Size	2,679	1,904	1,353
Total Local Production	1,789	1,284	924
Total Exports	73	70	68
Total Imports	963	690	497
Imports from the U.S.	5	7	8

Source: U.S. Commercial Service Estimates

The restaurant market in Russia had been booming due to the rapid development of the food service industry and increased consumer spending, but the sector slowed down considerably in early 2009 as a result of the economic crisis. However, the restaurant market began to pick up in the last quarter of 2009. Also, in spite of the crisis, fast food, quick and casual and chain restaurants continued to show positive dynamics, though many downsized their development plans. Industry experts also consider catering a promising market segment. About 40% of chain restaurants, cafés and bars are concentrated in Moscow and about 15% in St. Petersburg. The next biggest markets are Novosibirsk, Yekaterinburg, Perm and Nizhniy Novgorod.

Even though the market is very price sensitive, experts predict that demand for technologically-advanced equipment from the world's leading manufacturers will grow in the coming years. Presently, a wide selection of imported and domestic food service equipment is available for sale in Russia. Though the market share of Russian equipment increased in 2009, nevertheless imported equipment still accounts for about 30% of market.

### Sources of restaurant equipment

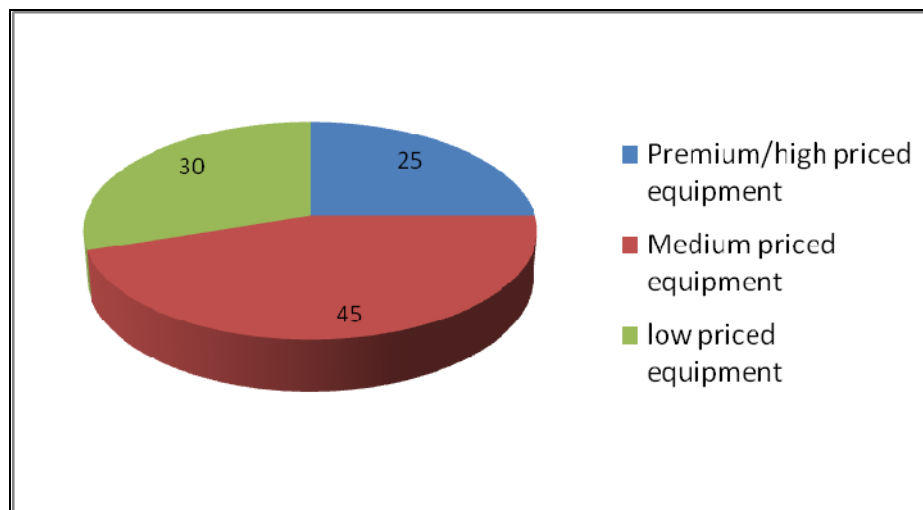


Source: Step-By-Step Company market research

The key exporters of foreign restaurant equipment to Russia are Italy, China, Germany, the United States and Canada. Foreign companies active in the Russian market include Eksi (Italy), Rational (Germany), Electrolux (Sweden), Hatco (U.S.), Middleby (U.S.), Kitchenaid (U.S.), and Garland (Canada). Ates and Chuvashorgtehnika are leading Russian market players.

Food service equipment is divided into three major categories: premium/high priced, medium, and low priced equipment.

#### **Shares of restaurant equipment market segments**



Percentages estimated by industry experts

Currently the low-priced segment, occupied by Chinese and Korean manufacturers as well as Russian producers, prevails in Russia's regions. Experts note that the demand for high-end equipment decreased in 2009 due to the economic downturn. The mid-price range is considered to hold the best opportunities for U.S. equipment suppliers, and in particular the fast food equipment sector shows promise. Industry insiders estimate that the size of the fast food equipment sector rebounded 10% in 2009. It is believed that U.S. equipment will soon become an attractive substitute for Italian and other European equipment if the Euro-dollar exchange rate remains favorable.

It is worth noting that while several years ago foreign suppliers had one or two authorized distributors, today the trend is toward increasing the number of authorized distributors, which creates competition not only among suppliers, but also among distributors. In order to maintain market positions and to stay competitive, distributors are now including technical training, equipment adjustments and maintenance services in their offers.

#### **Best Prospects/Services**

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- Coffee and hot beverage machines
- Griddles for making Russian pancakes (blini)
- Machines for preparing smoothies
- Steam convection ovens

- Frying machines
- Equipment for low temperature thermal conditioning
- Grills and rotisseries
- Smokers
- Equipment for pizzerias
- Bar equipment
- Showcases
- Popcorn machines

## Opportunities

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The best opportunities for U.S. exporters lie in the middle price segment of the restaurant equipment market. Buyers of such equipment are mostly concentrated in Moscow and St. Petersburg. Meanwhile, buyers in other regions of Russia prefer low-end equipment.

To be more specific, there is an interest in equipment for fast food restaurants, street kiosks and food courts; pizzerias; Asian food restaurants; and coffee houses. Also as the crisis hit the sector, restaurant owners began to search for non-standard approaches to upgrading their menu to attract more customers. That is why unique equipment for preparing new dishes and ethnic food are now in demand.

For U.S. firms interested in the Russian restaurant equipment market, exhibiting at Russian restaurant trade shows is advised. These trade shows are a powerful marketing tool and reassure Russian buyers that the U.S. company is committed to establishing and maintaining its presence in the Russian market.

## Resources

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### Organizations

Russian HoReCa Association  
 Association of Hoteliers and Restaurateurs  
<http://www.frio.ru>

### Trade Events

PIR. Hospitality Industry  
 September 26-29, 2010  
 Moscow  
<http://www.pir.ru/pir2/en/exhibition>

Restaurant and Hotel Exhibition  
 April 20-22, 2010  
 Novosibirsk  
<http://hotels.sibfair.ru/eng>

Hotel and Restaurant Business – Welcome 2010  
March 18-20, 2010  
*Sochi*  
<http://www.soud.ru/exhib/info.htm?id=251&yn=10>

**Publications**

HoReCa magazine  
<http://en.horeca.ru/>

**Commercial Service Contact**

Oksana Prokofieva, Commercial Specialist  
[Oksana.Prokofieva@mail.doc.gov](mailto:Oksana.Prokofieva@mail.doc.gov)  
Tel: 7 (495) 728-5529

## Security & Safety Equipment

### Overview

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\$ millions	2008	2009	2010 Estimate
Total Market	5,600	5,650	6,180
Services	4,200	4,000	4,200
Equipment	1,400	1,650	1,980
Local Production	210	330	600
Exports	140	250	400
Imports	1,330	1,570	1,780
Imports from the U.S.	65	80	90

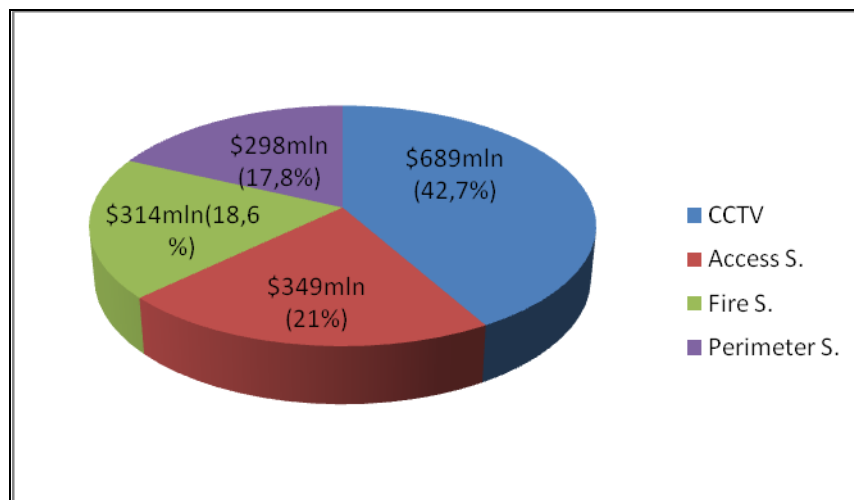
The Russian market for safety and security has great potential for rapid and steady development because of the country's vast infrastructure, large area, number of potential threats and relatively high level of criminal and terrorist activities. Before the financial crisis hit in 2008, the Russian market for safety and security systems had been developing rapidly, offering strong potential for U.S. companies. The economic downturn reduced the total volume of the safety and security market from \$6.8 billion in 2007 to \$5.6 billion in 2008, an 18% drop. Services totaled \$4 billion, or 70% of the market, and safety and security equipment amounted to \$1.7 billion. While annual growth in 2009 was flat because of the financial crisis, this result is considered positive since many other markets fell by 40-45%. However, the Moscow Safety and Security Show, held annually in February, one of the main safety and security events in Russia, lost almost half its exhibitors.

Regarding regional segments, 70% of the market is concentrated in Moscow and St. Petersburg, 17% in the Urals Federal District, 7% in the Siberian Federal District, and 6% in the Northwest Federal District. The rest of the market is divided among the Volga, Far East and Southern Regions. This order may change over the next two years as the 2014 Olympic Games will require substantial investment in safety and security infrastructure in the Sochi region. Thus the southern regions may take market share from Moscow and St. Petersburg.

The safety and security equipment market is divided into 4 main product segments:

- CCTV and Video Surveillance
- Access Systems
- Fire Safety Systems
- Perimeter Security and Control Systems

### 2009 Safety and Security Equipment Market (Sales/Share)

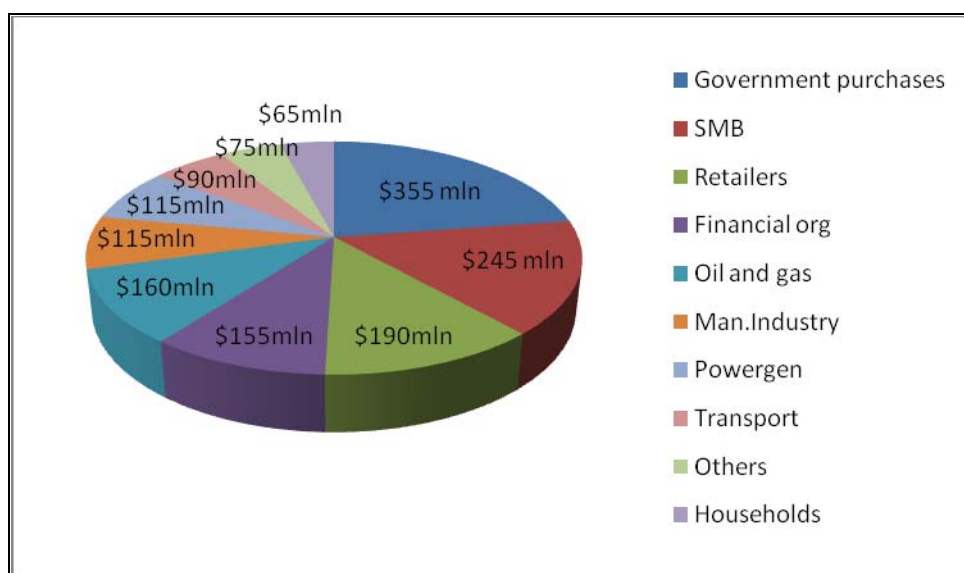


In 2009, the Russian CCTV and access systems segments totaled just over \$1.0 billion, or 60% of the equipment market. It is considered the most developed and competitive segment. The size of the security and fire alarm segment was approximately \$314 million (18.6% of the equipment market), historically increasing 12% to 15% annually. This segment is expected to grow substantially in 2010 because of new government technical standards related to fire safety in public places. The recent fire at a night club in Perm, with 150 fatalities due to poor fire safety, drew the government's close scrutiny to fire security issues in Russia and has created great potential for further growth of this segment.

Depending on the segment, the share of imported products ranges from 50% to 80%. Experts estimate that up to 80% of access control, about 50% of intruder and fire alarms, and more than 80% of CCTV systems are imported. Even locally manufactured equipment contains 60% to 80% imported components. Low cost solutions come from China, Taiwan, and Korea and are popular in Russian regions (outside Moscow and St. Petersburg). Premium systems are imported from the United States, Europe (Great Britain, Germany, France, Italy, and Poland), Japan, and Israel.

Government is the main consumer of products and services in this industry, with \$355 million in 2009. Its share is predicted to increase as the government remains concerned about the terrorist activities and possible calamities related to the disintegration of the nation's infrastructure.

## Major Consumers of Safety and Security Products and Services in 2009



While Russian government procurement is substantial, private entities, mainly in real estate, banking, retail, and oil and gas, are also important buyers and end users of a wide variety of security equipment. Currently, there are over 300 distribution companies working in the Russian security market. 65% of these companies are located in the Moscow and St. Petersburg regions.

Finding a local partner knowledgeable in the industry and experienced in procurement tenders would be the shortest path to successfully entering the Russian market. All Government purchases are effected through the electronic system called <http://www.zakupki.gov.ru>, a large web-based resource consolidating all procurement enquiries from state organizations and agencies. It operates only in Russian. It is essential to cooperate with a Russian company or to open a representative office inside the country to handle operations related to government tenders. Moreover, companies working in this business need steady and long-term relations with law enforcement and emergency agencies, which are the main consumers of the safety and security products.

### Best Products/Services

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Industry specialists note that one recent trend is the convergence of information and safety and security technologies, which creates more opportunities for high quality U.S. technology exports. The IP-based CCTV segment is expected to maintain its growth in the future as it is an essential part of any security system. Color CCTV cameras have almost replaced monochrome units.

A new trend is comprehensive fire security alarms. The recent series of fires in Russia that have injured hundreds of people forced the government to implement major changes in the Fire Service, which is a part of the Emergency Ministry. Much attention is being paid at the moment to fire security in public places.

Russia still occasionally encounters terrorist attacks. The last victim of those attacks was Russian Railways. After a November bombing, the company announced a new project that



involves installing a surveillance system all along the railways. The first place where the system will be installed is the line between Moscow and St. Petersburg.

One of the most important opportunities is the 2014 Olympic Games in Sochi. The total budget for the Games is about \$13 billion. The cost of safety and security equipment is estimated at 5-6% of the construction cost, thus creating a \$700-800 million market for safety and security products.

The best prospects for sales of U.S. manufactured hardware in 2010-11 are:

- IP-based solutions in various equipment segments, especially high end systems
- Access control systems
- Fire/intruder alarm systems, especially for public places
- Integrated control systems
- Biometric equipment, identifiers and readers
- Antiterrorist equipment, especially bomb-detection equipment
- Anti-theft systems, radar detection, recording equipment (wireless)

Experts consider that growth for these groups of products could reach 10-15% in 2011.

## **Opportunities**

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The strength of the safety and security systems market is in its constant innovation and price competitiveness. New concepts and products may create market entry opportunities. Participation in industry events is very important in this Russian market and it also facilitates successful market entry. There are several key events in the Russian safety and security industry. Before the crisis began, SST was the most popular trade show. In 2009 it lost many exhibitors, while major companies are looking closely at MIPS, a show that has received government support.

Interpolitex is a specialized trade show dedicated only to emergency and law enforcement; it is supported by the Ministry of Interior. Companies exhibiting at this trade fair are dealing closely with this Ministry and its law enforcement agencies; firms use it to show their loyalty to key accounts.

## **Resources**

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### **Organizations**

Russian Security Industry Association  
Moscow, Russia  
[http://www.rasi.ru/index\\_eng.php](http://www.rasi.ru/index_eng.php)

VNIIPO; All-Russian Scientific-Research Institute for Fire Prevention (Fire security equipment certification body)  
Moscow, Russia  
<http://www.vniipo.ru>

## **Trade Events**

SST (International Forum & Exhibition "Security and Safety Technologies")

February 15-18, 2010

*Moscow*

<http://www.tbforum.ru/en>

MIPS (Moscow International Exhibition for Protection, Security & Fire Safety)

April 19-22, 2010

*Moscow*

<http://mips-expo.com>

Interpolitex (International Exhibition of Police and Defense Technologies)

October 26-29, 2010

*Moscow*

<http://www.interpolitex.ru/en>

## **Publications**

Safety Systems Magazine published by Groteck Company

<http://www.groteck.net>

Sec.ru

<http://www.sec.ru>

## **Commercial Service Contact**

Timur Uddin, Commercial Specialist

[Timur.Uddin@mail.doc.gov](mailto:Timur.Uddin@mail.doc.gov)

Tel: 7 (495) 728-5526

## Travel & Tourism to U.S.

### Overview

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	2008	2009	2010 (estimate)
Russians Traveling Abroad	22,000,000	20,000,000	21,000,000
Russians Traveling to U.S.	143,000	140,000	143,000

Source: Q1 Russian Tourism Report, BMI 2010; Office of Travel & Tourism, U.S. Dept of Commerce

With a population of over 140 million, Russia is the ninth largest outbound market in the world. Over 20 million Russians traveled abroad in 2009. As the growing Russian middle class discovers new routes that cater to their tastes and budget, U.S. destinations are becoming more popular among Russian tourists. Direct passenger flights to the United States, simplified U.S. visa procedures and the depreciation of the U.S. dollar against the Euro have helped make travel to the United States more attractive and affordable for Russian travelers. It is estimated that the average Russian tourist spends about \$250 a day in the U.S. While the recent financial crisis interrupted the rapid positive dynamics of the Russian T&T market, experts' longer-term forecasts are favorable.

### Best Products/Services

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Based on the results of the survey of Russian tour operators conducted by CS Moscow, the most promising destinations in the United States include:

- Cities: New York City, Miami, Las Vegas
- National Parks
- Ski / Winter Resorts
- Leisure / Entertainment Complexes

New York City has been and will likely remain the most popular city destination for Russian tourists in the near future. Russians will often combine their business travel to NYC with a pleasure trip. Their family, historical and cultural ties to NYC put it on the top of the list for brand awareness, followed by Miami and Las Vegas. Interest in National Parks is growing as Russian tourists hear more about what they have to offer. Ski and winter sports resorts have become more popular in recent years as they provide a unique travel experience in variety, beauty and quality of service. Because of the current U.S. dollar/Euro exchange rate, these resorts have become more economical than European destinations. Other specific destinations of interest include various locations in Florida famous for their comfort and opportunities for different forms of leisure, and Las Vegas, considered by many Russians to be the gambling and entertainment capital of the world.

### Opportunities

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Increased prices for domestic travel destinations and the development of outbound travel services triggered Russians' growing interest to travel to destinations outside Russia. Turkey, China and Egypt have held the top places in the number of Russian tourists for the past several years. These countries, along with Finland, Italy, Spain, Greece, Bulgaria and Thailand still constitute the core of mass tourism destinations for Russian travelers. However, recent outbound traffic statistics indicate that, in addition to traditional warm and seaside destinations,

more Russians are choosing countries where they may supplement time on the beach with other activities, such as cultural and sporting events, shopping and recreation. Moreover, Russians who have traveled to Asia and Europe in the past are willing to explore destinations other than those they have already visited. While the activity may be similar, the different destination is appealing. For example, skiers who have visited the Alps for their proximity look to Colorado, Utah and Vermont for their next trip.

The popularity of the United States as a tourist destination has grown steadily since 2003, after a downward trend following the events of September 11, 2001. Russian tourist numbers accelerated dramatically over the last few years. According to international arrival data from the Office of Travel and Tourism at the U.S. Department of Commerce, the number of Russians traveling to the United States totaled 115,000 in 2007, up 21% from 2006. In 2008, it reached 143,000, a record annual increase of 25%. According to a survey conducted by the U.S. Commercial Service Moscow, while Russian tour operators specializing in U.S. destinations had been concerned that the economic crisis would affect their business in 2009, they did not notice any significant changes in the number of U.S. tours their agencies booked in the beginning of 2009 compared with the same period in 2008. The latest statistical data also confirm this observation: U.S. destinations are among the few that do not show any significant change in the 2009 arrival numbers compared with those of 2008.

An important factor accounting for the steady growth in the number of Russian travelers to the United States is the significant improvement in the visa application process that has taken place within the last two years. The U.S. Embassy has made great progress in streamlining the process in the face of a rapidly growing number of applications and has made visa information available online in Russian. Applicants are now able to send their application fee and supporting documents to the Embassy via a courier service with offices across Russia and have the opportunity to secure a two-year, multiple entry visa. For those wishing to renew a visa, the requirement to appear for an interview is often waived. Russian tour operators are also educating their travelers regarding these improvements. The availability of visa information online has made it possible to counter the market's impression that U.S. visas are expensive, difficult to obtain and take a long time to process.

Another significant improvement is the fact that more airlines, both U.S. and international, have launched non-stop service connecting Moscow with U.S. destinations. Delta Airlines, United Airlines, Aeroflot Russian Airlines, and Singapore Airlines all offer direct flights to U.S. cities. Delta flies to New York and Atlanta; United flies to Washington, DC; Aeroflot to New York, Washington DC and Los Angeles; and Singapore Airlines to Houston. This is a reflection of the growing market demand for this kind of service. As the market becomes more educated about U.S. destinations, visa processing, flight availability and purchase value, the Russian market will look increasingly to the United States for tourist destinations.

The Visit USA Russia committee is in the process of registering as an official Russian organization. It has already attracted 40 companies interested in further development of Russian outbound travel to the United States. The committee plans to offer marketing, consulting services and training to help promote U.S. destinations in Russia.

**Trade Events**

International Travel Fair "Intourmarket"

March 13-16, 2010

*Moscow*

<http://www.itmexpo.ru/en>

Moscow International MICE Forum

March 16, 2010

*Moscow*

[http://www.miceforum.ru/index\\_eng.shtml](http://www.miceforum.ru/index_eng.shtml)

Moscow International Travel & Tourism (MITT)

March 17-20, 2010

*Moscow*

<http://www.mitt.ru/en>

CS Moscow intends to be active in supporting U.S. destination travel at MITT in 2010.

Leisure

September 21-23, 2010

*Moscow*

<http://www.leisure-moscow.ru/en>

INWETEX – CIS Travel Market '2010

October 13-15, 2010

*St. Petersburg*

<http://www.restec.ru/exhibitions/featured/travelexpo/inwetex.en.html>

**References & Key Contacts****Visit USA Russia**

Margarita Babayan, Chair

Tel: 7 (495) 935-7925/36

Cell: 7 (906) 756-1883

[ms@usa-tour.com](mailto:ms@usa-tour.com)

[www.visit-usa.ru](http://www.visit-usa.ru) (currently under construction)

**Aeroflot Russian Airlines**

37 Leningradsky Prospect, bldg. 9

*Moscow*

Tel: 7 (495) 223-5555

<http://www.aeroflot.ru>

**Delta Airlines**

11 Gogolevsky Blvd., 2<sup>nd</sup> floor

*Moscow*

Tel: 7 (495) 937-9090

<http://www.delta.com>

**Singapore Airlines**

Hotel Renaissance,  
18/1, Olympisky Prospect  
Moscow  
Tel: 7 (495) 937-5920  
<http://www.singaporeair.com>

**United Airlines**

40/2 Prechistenka Street, Building 1, office 32  
Moscow  
Tel: 7 (495) 980-0882  
<http://www.ual.com>

**U.S. Travel Association**

1100 New York Avenue, NW Suite 450  
Washington, DC 20005-3934  
<http://www.tia.org>

**International Trade Administration  
Office of Travel & Tourism Industries**

U.S. Department of Commerce  
<http://tineta.doc.gov>

**U.S. Department of Homeland Security, US-Visit Program**

1616 N. Fort Myer Drive  
Arlington, VA 22209  
Tel: (202) 298-5200  
<http://www.dhs.gov/usvisit>

**B-FOR International**

Bjorn Bieneck, President & CEO  
805 Princess Anne Street, Suite 1  
Fredericksburg, VA 22401  
Tel: (540) 373-9935  
<http://www.b-for.com>

**Russian Travel Industry Union**

Sergey Shpilko, President  
11, Stolesnikov per., office 426  
Moscow, 107031 Russia  
Tel: 7 (495) 692-2464  
E-mail: [rata@rata.ru](mailto:rata@rata.ru)  
<http://www.ratanews.ru>

**Russian Association of Tour Operators**

Svetlana Fedorova, Head of Public Relations  
23/2, B. Molchanovka, office 4  
Tel: 7 (495) 203-0064  
E-mail: [ator@ator.biz](mailto:ator@ator.biz)  
<http://www.ator.biz>

**Commercial Service Contact**

Gulnara Kenzhebulatova, Commercial Specialist

[Gulnara.Kenzhebulatova@mail.doc.gov](mailto:Gulnara.Kenzhebulatova@mail.doc.gov)

Tel: 7 (495) 728-5405

## Agricultural Sector

### Overview

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While agricultural imports to Russia blossomed in 2008, the financial crisis gravely impacted imports in 2009. Agricultural imports were down almost 17% from the previous year's total.

Year-on-year and average annual growth in Russian agricultural imports can be seen in the following table:

	2005	2006	2007	2008	2009
Agricultural Imports (billion dollars <sup>1</sup> )	15.8	19.7	24.4	33.8	28.1
Growth Year-on-Year (percent)		24.6	24.3	28.5	-16.8
5-yr Average Annual Growth (percent)					15.2

UDG: WTO Agriculture Definition

Source: Global Trade Atlas, Russian Customs Committee

Despite the crisis, U.S. agricultural exports reached \$1.7 billion in 2009 with almost three-quarters being poultry, pork, and beef. Other top performing U.S. exports to Russia in 2009 include food preparations, tobacco, tree nuts, soybeans, fresh fruit, and live cattle. In contrast, Russia's top agricultural imports from the world in rank order were beef, pork, poultry, tobacco, fruit and cheese.

In December 2009, Russia extended the tariff rate quotas (TRQ) for poultry from 2010 through 2012. For 2010, the U.S. poultry TRQ was cut from 750,000 to 600,000 MT, while the global total was lowered from 952,000 MT to 780,000 MT. Poultry meat and meat by-products may only be shipped from approved plants that have undergone special inspections to ensure conformity with Russian inspection criteria.

On January 1, 2010, Russia banned all poultry treated with levels of chlorine that exceed the allowable levels available in drinking water. This action has resulted in the virtual ban of all U.S. poultry. In early 2010, the United States seeks to finalize agreement with Russia that will allow U.S. poultry to regain eligibility for export to Russia.

In December 2009, Russia also extended the TRQ for pork from 2010 through 2012, but established a separate quota for pork trimmings. In total for 2010, Russia decreased the previously consolidated pork in-quota quantity from 531,900 MT to 472,100 MT of pork and 27,900 MT of pork trimmings. The United States has no country-specific allocation for pork trimmings and its pork quota for 2010 decreased from 100,000 MT to 57,500 MT.

At the end of 2009, Russia restricted U.S. plants producing 95% of U.S. pork through zero-tolerance enforcement of tetracycline-group antibiotics. Later in January 2010, the Russian veterinary authority issued a decree to enforce the Russian sanitary rules and norms that allow for such residue findings of up to 10 parts per billion. We expect U.S. pork plants to regain eligibility so that the Russia pork quota allocated to the U.S. (57,500 MT) can be filled in 2010.

In early 2010, the United States and Russia seek to finalize negotiations on a new veterinary health certificate on pork. Pork meat and meat by-products may only be shipped from approved plants that have undergone special inspections to ensure conformity with Russian inspection criteria.



Russia's retail sector had been growing at a pace of 20% to 30% annually until last year when it posted a 5.7% decline. According to data from the Federal State Statistics Service (Rosstat), the value of the food and beverage market in Russia reached \$255 billion in 2008 and contributed more than 45% to total retail sales. In 2009, sales of food decreased 5.5%.

Because retailers demand consistent quality and adherence to contract specifications and penalize suppliers for failure to meet requirements, foreign suppliers continue to be competitive in the Russian market as they are more accustomed than Russian agricultural producers to meeting such strict specifications.

The structural evolution of the Russian retail market continues to be led by large retailers with annual turnover exceeding \$1 billion. The expansion has been focused mainly on developing modern retail formats in large urban areas such as Moscow and the surrounding areas (50%) and St. Petersburg (30%); however, some retailers have made considerable efforts to expand into Russia's regions.

Open-air markets and older Soviet-style stores, including wet markets, had been declining in popularity and losing market share to modern retail formats such as hypermarkets, supermarkets, and discounters. As a result of the crisis, consumers are increasingly price-sensitive and the open-air markets rebounded slightly in 2009 with a 1.3% increase in sales volume over 2008. Discounters have also outpaced hypermarkets and supermarkets in sales and expansion. For example, the X5 Retail Group plans to open 200-250 discounters in 2010 and only 15 supermarkets and 7-10 hypermarkets. Magnit plans to open 450-550 discount stores and 25-30 hypermarkets, and Dixie plans to spend about \$100 million to open low-cost stores.

Currently the Russian retail market is highly fragmented with the 11 largest retailers (by revenue) controlling only 15% of the market, versus 80% for the 10 largest retailers in the U.S. Western-style "modern" retail chains currently account for 50% of food sales in Moscow and 80% in St. Petersburg. Russian retail giants such as the X5 Retail Group, Magnit, Seventh Continent, Dixie and the Kopeika chains are still among the top Russian retail players.

Russia's food processing sector overall slowed slightly in 2009 due to declining demand as consumers chose food staples and less convenience among high value items. In spite of the decline, some food processing sectors such as meat, cheese, vegetable oil, pasta, groats, flour, and dairy increased production. Food ingredients are imported, mainly from Denmark, Belgium, France, Germany, Austria, Great Britain, and the U.S. Despite the financial difficulties Russian manufacturers are experiencing, many are investing in modernization and expansion in order to strengthen their position in the market. The Russian food industry continues its dependence on imports and, thus, opportunities to supply the market with U.S. products are plentiful.

According to Rosstat, inflation in 2009 decreased to 9% from 13.3% in 2008. Inflation of food prices was only 5% (without alcohol) and was a primary contributor to the overall decreased inflation rate. Prices of bread, pasta, eggs, milk, staple dairy products and staple vegetables either decreased or increased by less than 3% on a year-to-year basis. Meat and poultry inflation was slightly higher with increases of 6%. The prices for fish/seafood and creamy butter increased by 11 and 8%, respectively. The price of sugar jumped by 43% on a year-to-year basis due to its shortage in the world market, and this might affect prices of many staple confectionary and bakery products in 2010.

The Russian Government increased financing for agriculture in 2009 mostly by infusing 45 billion rubles into the Russian Agricultural Bank and 25 billion rubles to Rosagroleasing. These funds were primarily used for re-financing loans, and subsidizing interest rates, rather than to support new purchases. Capital for many agricultural industries, including for food importers, remains in short supply.

Implementation of the five-year (2008-2012) program of agricultural development and market regulation was implemented through interest rate subsidies and capital infusions to the Rosselkhozbank and Rosagroleasing. In 2009 the support was primarily targeted to development of livestock farming. Furthermore Russian President Medvedev recently approved Russia's new Food Security Doctrine on January 30, 2010 that sets long term goals to increase Russia's self-sufficiency in several major food products.

The doctrine sets the minimum self-sufficiency targets: 85% meat, 90% milk, 80% sugar and vegetable oil, and 95% in potato and grains. As a result, it is anticipated that both domestic programs and foreign trade policy may shift to favor domestic production in order to help secure some of these targets. For 2010, this could result in a tightening of the market for meat and dairy products, but at the same time create new opportunities for high protein feeds and animal genetics.

## **Best Prospects/Services**

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### **Beef**

In December 2009, Russia extended the tariff rate quotas (TRQ) for beef from 2010 through 2012. For 2010, Russia increased the total in-quota quantity for fresh or chilled beef from 28,000 MT to 30,000 MT and increased the total in-quota quantity for frozen beef from 450,000 MT to 530,000 MT. The United States has no country-specific allocation of fresh or chilled beef and its frozen beef share increased from 18,500 MT to 21,700 MT. Russia left 2010 in-quota tariffs unchanged. Simultaneously, Russia restricted quota-exempt "high-quality" beef receiving the in-quota rate, as its definition of high quality beef was changed from 3 Euros per kg to 8 Euros per kg. Beef and beef by-products may only be shipped from approved plants that have undergone special inspections to ensure conformity with Russian inspection criteria.

### **Animal Genetics**

Following completion of the 2005-2007 National Priority Project for Accelerated Development of the Agroindustrial Complex, the Russian government adopted a five-year agricultural development program intended to create a new beef sector as well as to stimulate continued development of the dairy, poultry, and pork sectors. As the access for meat continues to be limited through reduced quotas and SPS measures, the demand and opportunity for higher quality animal genetics will grow.

In the 18 months from July 2008 through December 2010, U.S. exporters shipped more than \$25 million of live purebred and dairy cattle to Russia. This remains one of the fastest growing opportunities for U.S. agricultural exports to Russia. The purchase of pedigree cattle are partly subsidized by the Russian government.

While statistics are unavailable, imports of embryos have been slower to develop but should increase in 2010 in tandem with awareness and education. The market is currently estimated at \$1.0 million.

Hatching eggs and chicks are important for the quickly expanding Russian poultry and egg sector, and as a result, most import tariffs were temporarily lifted in 2009.

Live horses for breeding and racing are estimated at \$5.0 million, including \$2.0 million from the United States. (precise data are unavailable due to transshipments via Europe).

The United States and Russia signed a veterinary certificate for breeding sheep and goats in December 2009 creating new opportunities for trade in these animals in 2010.

Swine genetics remain an area of opportunity; however, transit restrictions through the European Union have prevented U.S. trade with Russia. The import market for live purebred swine was \$29.8 million in 2008, none of which was sourced from the United States.

### **Edible Tree Nuts**

Since 2005, nut consumption in Russia has increased, driven largely by rising incomes, the increased awareness of the health benefits of nuts, and a trend toward maintaining a health-conscious diet. However, Russian imports of tree nuts fell in 2009 to \$291.7 million, a 24% decrease from 2008.

The main nut varieties sold in Russia are walnuts (21% of the market volume), almonds (18%), pistachios (17%), hazelnuts (13%), desiccated coconut (10%), and cashews (8%). The main suppliers of nuts are the Ukraine (walnuts), the United States (almonds and pistachios), Iran (pistachios), and Azerbaijan (hazelnuts). In 2009 the United States became the largest supplier of tree nuts to Russia, with almost 25% of the market. The U.S. is the traditional leader in almond supply to Russia. U.S. pistachios entered the Russian market in 2007 and are competing well against Iranian product.

The majority of imported nuts are packaged in Russia into consumer-ready packs or used in the confectionary and baking industries.

### **Fish and Seafood**

Russia was a \$1.5 billion market for fish and seafood in 2009. Imports from the United States in 2009 reached \$27 million, a 29% decline versus 2008. According to Rosstat, retail prices for fish and seafood in Russia increased 11% in 2009. The outlook for 2010 suggests higher demand for fish and an increase in per capita consumption, specifically in lower-priced segments such as herring, hake, and perch, compared with more expensive fish and processed products. Most companies have attributed the change to the economic slowdown. Fish consumption patterns will continue to depend heavily on household income, prices, and preferences within the population. Among consumption preferences of the Russian population are herring, pollock, mackerel, salmon and trout. Frozen fish is also traditionally popular with the Russian population.

### **Fresh Fruit (Apples, Pears, Grapes, Citrus)**

Russia remains the third largest importer of fruit in the world. While Russia is expected to continue investing in domestic production of products such as apples on a commercial scale, the market remains highly dependent on fruit imports. In 2009 per capita fruit consumption was estimated to be 40 kg per year. Russians mainly buy apples, bananas, and citrus. The market shares of other fruits dropped significantly, as consumer shifted to more traditional and lower priced items.

The EU has been the main exporter of fruit to Russia, but increased competition from the CIS and Poland has changed the landscape. These neighbors have boosted the volume of fruit exports to Russia by 25% in a single year.

Russian imports of U.S. fresh fruit by volume dropped 16.5% during the January –December 2009 period to 27,510 MT. U.S. apples sales dropped 33% to only 11,400 MT. Pear exports were stable at 7,600 MT, while imports of grapes totaled almost 3,000 MT, a 6-per cent increase over the previous season. Russian importers tested U.S. pomegranates and citrus and found that even during the crisis, there was a demand for new products. Despite the decline in volumes shipped from the U.S. to Russia in 2009, U.S. fresh fruit exports to Russia reached a record high value of \$36.5 million in 2009 (according to US Census data) and are expected to increase during 2010.

### **Wine and Spirits**

Russian wine imports reached \$613.5 million for 2009. In 2009, U.S. wine sales declined approximately 8.7% and were only one percent of Russian wine market. The major competitors are EU countries, especially France, Italy and Spain. These countries suffered dramatic declines in sales ranging from 30-45% in 2009. Despite the reduction in demand, the EU continues to be the largest wine exporter to Russia. Russian imports of hard liquor were \$695 million in 2009, a 37% decline from 2008. U.S. spirits exports to Russia were \$22.3 million (3.2% of the Russian market) in 2009, with only a 6.6% decline. American whiskies are competing with the market-dominant Scotch whiskies and European brandies, Armenian cognac, and Ukrainian vodkas.

### **Russia: Imports of Selected Agricultural Products from the United States (Million U.S. dollars)**

	<b>2007</b>	<b>2008</b>	<b>2009</b>
Meat & Ed Offal Of Poultry, Fresh, Chill Or Frozen	634.89	835.90	733.13
Meat Of Swine (Pork), Fresh, Chilled Or Frozen	180.39	435.88	299.00
Food Preparations Nesoi	64.10	102.30	89.28
Nuts Nesoi, Fresh Or Dried	69.14	103.62	82.24
Tobacco, Unmanufactured; Tobacco Refuse	73.35	76.48	71.56
Ed Offal, Bovine, Swine, Sheep, Goat, Horse, Etc.	28.94	74.41	70.26
Bovine Animals, Live	0.00	7.78	42.85
Soybeans, Whether Or Not Broken	0.09	0.17	33.02
Sunflower Seeds, Whether Or Not Broken	15.46	27.93	28.07
Residues Of Starch Mfr Or Sugar Mfr Or Brewing Etc	23.06	32.45	23.67
Ethyl Alcohol, Undenat, Und80% Alc; Spirit Beverage	24.57	23.94	22.35
Soybean Oilcake & Oth Solid Residue, Wh/Not Ground	13.36	22.84	21.91
Fish, Frozen (No Fish Fillets Or Other Fish Meat)	32.98	24.66	19.17
Animal (Not Fish) Guts, Bladders, Stomachs & Parts	1.39	2.30	18.12
Veg Saps & Extracts; Pectates Etc; Agar-Agar Etc.	13.66	17.53	11.77
Apples, Pears And Quinces, Fresh	10.18	15.11	11.77
Meat Of Bovine Animals, Frozen	0.00	71.85	11.62
Birds' Eggs, In The Shell, Fresh, Preserv Or Cookd	10.68	9.49	10.42

Extracts Etc Of Coffee, Tea Or Mate; Roast Chicory	1.18	25.21	9.82
Peanuts (Ground-Nuts), Raw	18.28	14.03	9.60

Source: World Trade Atlas, from Russian Customs Committee data

Note: Official statistics underreport trade due to heavy transshipments to Russian via Europe, particularly for fresh fruits, wine, and spirits.

## Resources

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### Organizations

U.S. exporters should consult reports from USDA's office in Moscow, which are posted on the website of the Foreign Agricultural Service under the "Attaché Reports" heading or go to <http://gain.fas.usda.gov/Pages/Default.aspx>. Of particular interest should be the annual *Exporter Guide* as well as periodic reporting on changes in tariffs, market opportunities, and Russian commodity trends. Exporters should consider exhibiting their products in the U.S. pavilions at the World Food trade show (September 2010, Moscow, foodstuffs) or the Golden Autumn trade show (October 2010, Moscow, genetics and production agriculture inputs). For further information on these shows, please contact the Moscow Agricultural Trade Office at [atomoscow@fas.usda.gov](mailto:atomoscow@fas.usda.gov).

### U.S. Embassy

Scott Reynolds, Minister-Counselor for Agricultural Affairs  
8, Bolshoy Devyatinskiy Pereulok, Moscow 121099  
Tel: 7 (495) 728-5222, Fax: 7 (495) 728-5133  
E-mail: [agmoscow@fas.usda.gov](mailto:agmoscow@fas.usda.gov), [atomoscow@fas.usda.gov](mailto:atomoscow@fas.usda.gov)

### Washington-based U.S. Government contacts for Russia

U.S. Department of Agriculture, Foreign Agricultural Service  
Office of Country and Regional Affairs, Europe Division  
Kristina Horgan, Country Desk Officer  
[Kristina.Horgan@fas.usda.gov](mailto:Kristina.Horgan@fas.usda.gov)  
1400 Independence Avenue, S.W.  
Washington, DC 20250-1000  
Tel: (202) 720-1330

Foreign Agricultural Service, USDA  
<http://www.fas.usda.gov>

Agricultural Attaché Reports  
<http://www.fas.usda.gov/scripts/AttacheRep/default.asp>

USDA office at the American Embassy, Moscow, Russia  
<http://www.eng.usda.ru>

Ministry of Agriculture  
<http://www.mcx.ru>

Ministry of Economic Development  
<http://www.economy.gov.ru>

### **Trade Events**

World Food Trade Show  
September 14-17, 2010  
*Moscow*  
<http://www.world-food.ru/eng>

Golden Autumn Trade Show  
October 8-11, 2010  
*Moscow*  
[http://www.goldenautumn.ru/en/text\\_items/show/24](http://www.goldenautumn.ru/en/text_items/show/24)

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## Chapter 5: Trade Regulations and Standards

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### Import Tariffs

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Russia continues to maintain a number of barriers with respect to imports, including tariffs and tariff-rate quotas, discriminatory and prohibitive charges and fees, and discriminatory licensing, registration and certification regimes. This situation has become more complicated due to the entry into force on January 1, 2010 of the Tricountry Customs Union (TCU) among Russia, Belarus and Kazakhstan. All issues such as tariffs, tariff rate quotas and licensing and certification will now be harmonized, although implementation so far has been uneven. For more detailed information concerning tariffs, please refer to the “Customs Regulations and Contact Information” section below. The following is a selection of tariff ranges for popular U.S. goods entering Russia.

<u>Commodity</u>	<u>Rate (%)</u>
HS 02: Meat and edible meat products	
(within quota, but not less than .20-.25 Euro/kilo)	15
(beyond quota, but not less than 1-1.5 Euro/kilo)	50-75
HS 0207    (within quota, but not less than .2 Euro/kilo)	25
(beyond quota, but not less than .7 Euro/kilo)	80
HS 24: Tobacco and manufactured tobacco/Unmanufactured tobacco	5-20
- Cigars and Cigarettes but not less than 3 Euro/1000 pcs	30
HS 28: Inorganic Chemicals	5-20
HS 38: Miscellaneous chemical products	5-15
HS 39: Plastics and Articles thereof	5-10
- Finished products	10-20
HS 73: Articles of iron and steel	5-20
HS 84: Nuclear reactors, boilers, machinery	0-20
HS 85: Electric Machinery	0-20
HS 87: Vehicles except railway and tramway	0-35
HS: 8708 Auto parts	0-5
HS 90: Optic, Photo, Medical and Surgical Instruments and devices	0-20
-Medical equipment	0-15

Current information on the harmonized tariffs of the TCU can be found in Russian at:  
<http://www.tsouz.ru/>

As part of the negotiations for the TCU, Russia changed many of its tariffs and tariff lines. While some of these changes remain in accordance with the international obligations of the Russian government to comply with HS codes and Russia's intention to enter the WTO, many do not. The new TCU tariff schedule changed rates for over 100 categories of commodities, lowering the tariff ceiling for some categories, but raising them or making permanent previous temporary tariffs for many others. Notable changes included lowering of import tariffs for pearls, diamonds and other precious stones from 20% to 10-15% and keeping the high "temporary" tariffs on agricultural equipment and off-highway trucks. Certain commodities continue to be regulated through seasonal duties and quotas.

In addition to tariffs, there are two other charges applied to imports: The ubiquitous Value Added Tax (VAT) and selective excise taxes. The universal VAT rate was reduced from 20% to 18% effective January 1, 2004 (with the exception of foodstuffs, pharmaceuticals and medical supplies for which VAT is 10%) and is applied to the import price, tariff, and excise tax combined. There are some exemptions from VAT. For example, resolution No.19 of January 17, 2001 provides a list of vitally essential medical equipment to which no VAT is applied. The excise tax applies to a number of luxury goods, alcohol and cigarettes, and varies from 20% to 570%.

From December 2008 through February 2009, the Russian government announced a series of significant duty increases on cars, harvesters, certain steel products (including pipes, tube and rebar), and certain agricultural products (including butter, milk and soy meal). These duty increases, many of which the government renewed after their initial nine-month period, have now been included in the harmonized TCU tariff schedule and will continue to be an obstacle to U.S. exports to Russia.

The increased duties on imported vehicles (as much as 20% for new cars and at a prohibitive level for used cars older than four years), are forcing companies to set up local assembly plants to get past the tariffs. U.S. automobile makers already manufacturing in Russia have been less affected because the duty increases do not apply to their cars produced or assembled at Russian plants. The duty rates for harvesters were increased dramatically, by at least 200%. The duty increases, combined with a restriction on Russian government financing of imported agricultural equipment, contributed to a nearly complete cessation of imports into Russia for the major U.S. and EU producers of agriculture equipment.

While it initially appeared that the Russian government imposed these measures mainly to protect domestic producers from competing imports during the global economic crisis, their new permanence in the TCU tariff schedule indicates that Russia's goal is to focus on developing local industry over foreign producers.

In addition to duty increases, the Russian Ministry of Industry and Trade is continuing global safeguards investigations of certain steel products, large diameter pipes and mechanical fasteners. These continuing trade investigations, which have already resulted in additional duties on such products as cutlery and steel pipes, could result in the imposition of additional duties or import quotas on those products.



In general, U.S. companies face a number of tariff and non-tariff trade barriers when exporting to Russia. A complaint frequently voiced by U.S. companies is Russia's complex system of standardization. As explained in detail in the "Standards" section below, Russia's regime remains extremely complex due to its lack of clarity and transparency, and overall redundancy. While the system has improved somewhat, U.S. companies are encouraged to obtain appropriate legal advice or assistance from experienced distributors or consultants, as well as the U.S. Commercial Service.

Discrimination against foreign providers of non-financial services is, in most cases, not the result of federal law, but stems from abuse of power, sub-national regulations and practices that may violate Russian law. For example, a few foreign service providers have noted that they are forced to pay a range of fees to obtain licenses from local authorities, fees that domestic companies allegedly bypass via bribes.

The 1996 federal law "On Banks and Banking Activity" permits foreign banks to establish subsidiaries in Russia. However, Russia does not allow foreign banks to establish branches in Russia. The 1990 federal law on banking activities, last amended in 2006, specifically states that any quota or limitation on the size of foreign charter capital in the banking sector would require a new law to be put forward by the government of Russia and agreed to by the Central Bank of Russia. In November 2006, Russia and the U.S. signed their WTO (World Trade Organization) Bilateral Agreement, a major step in Russia's accession to the WTO. As part of this Agreement, Russia pledged to allow foreign ownership to account for as much as 70% of the country's total banking sector equity. Implementation of this provision will likely take place only after Russia's accession.

The Central Bank has required new foreign bank subsidiaries to have a minimum of €5 million in capital (the same requirement is applied to domestic banks) and that at least 75% of the bank's employees and 50% of the bank's management board be of Russian nationality if the chairman is not a Russian citizen. Heads of foreign banks' Russian offices are required to be proficient in the Russian language.

In the insurance sector, foreign insurance firms are subject to a 49% equity restriction. Foreign firms that were active in Russia when this requirement came into effect, however, were grandfathered and are not subject to the foreign equity limit. Russia also has more generous operating provisions for insurance companies from the European Union, and has been permitting multinational companies to benefit from this more generous treatment provided they conduct their Russian investments via their EU-based offices. Once Russia becomes a WTO member and the United States grants permanent normal trade relations status, U.S. insurance companies will be allowed to operate through subsidiaries, including 100% foreign-owned non-life insurance companies, and will be able to open direct branches at the end of a nine-year transition period. However, as in the banking sector, Russia maintains the discretion to limit foreign sourced charter capital in the insurance sector and if the ratio of foreign sourced to total charter capital in the insurance sector ever exceeds the 50% cap, Russia's regulators will have the discretion to take certain actions specified in Russia's WTO commitments.

Until Russia's accession, EU firms will continue to enjoy an advantage over their counterparts from the United States and elsewhere, since they can offer life and mandatory forms of insurance in Russia directly, without the requirement to work through a majority Russian-owned

partner. Russian law currently requires that chief executives and chief accountants of foreign insurers operating in Russia be Russian citizens.

The Russian telecommunications sector is governed by the Law on Communications, dated July 2003 and the law on "Information, Information Technologies and Information Protection," dated July 2006. The latter law's impact on competitive alternative telecommunications operators, many of which enjoy large foreign investment, has been substantial, since these companies now fall under tight government regulation. In particular, regulations on interconnection -- the process by which alternative operators connect their networks to the Russian public telephone network -- place interconnection contracts and fees under the regulatory authority of the Ministry for Communications and Mass Media. Alternative operators fear that these fees will be raised to subsidize network upgrades of government-owned and ministry-controlled local and long distance operators.

The Land Code that was passed in 2001 allows equal treatment of domestic and foreign entities to buy land and buildings, although purchase of agricultural land by foreigners is still prohibited. Discussion on specific land policy continues, including legislation on transfer of use, but a conclusion has not yet been reached. Foreign entities are restricted from buying land close to federal borders and in areas that the President determines critical to national security.

The government enacted the Strategic Sectors Law (SSL) in May 2008. The SSL introduces a list of 42 "strategic" sectors in which purchases of "controlling interests" by foreign investors must be pre-approved by the Russian government. The list of restricted sectors includes: enterprises in the nuclear industry or involved in handling radioactive materials; enterprises involved in work on infectious diseases; arms, munitions, and military equipment production, maintenance, or repair; the aviation and space industries; certain data-transmission (radio, television, telecommunications) infrastructure; production and distribution of encryption technologies and equipment; production and sales of goods and providing services under conditions of a "natural monopoly" (e.g., activities such as operating certain gas networks); newspapers with a circulation of more than one million; and natural resource extraction. Many observers, while welcoming more clarity on the rules of the game, have criticized the SSL for being overly broad in the number of sectors it covers, and raised concerns regarding the approval process.

There has been public information on just four foreign companies that received approval under the SSL: South African DeBeers (diamond mining, but the deal fell through because of the crisis), Italian Alenia Aeronautica (development of Sukhoi Superjet 100), Canadian Barrick Gold (gold mining) and Khartron, which the Ukrainian government controls (space cooperation).

In conjunction with the SSL, amendments to the sub-soil legislation were also passed requiring governmental approval for foreign investment in excess of 10% in companies operating a "strategic" deposit, which includes major oil, gas, and other mineral deposits. Foreign oil and gas companies are concerned about the potential application of these provisions, including how and when the government may declare a given field strategic and what compensation a field licensee may be given under such declarations.

The Russian government continues its policy of not entering into any further Production Sharing Agreements (PSAs), designed for energy projects that require high capital expenditures and a long period before profits or significant tax revenues are generated. The two remaining major PSAs are ExxonMobil-led Sakhalin I and Total-led Kharyaga.

After declining marginally in 2008 for the first time since 2000, oil production rebounded slightly in 2009, surpassing 10 million barrels per day. Limited tax breaks for oil production and new output from several major fields, including state-owned Rosneft's giant Vankor field, have helped recent production increases. However, many analysts and oil sector executives continue to predict oil production stagnation and decline without further fundamental reforms to the sector's onerous tax structure. Oil taxes are levied on revenues, instead of on profits, hindering needed large investments in new fields.

As addressed in the Power equipment section of chapter 4, the decline in electricity demand and the tight credit market associated with the economic crisis contributed to a slow-down in the privatization process, creating uncertainty for investment. As a condition to the generating companies' spinoffs, investors in the OGKs and TGKs agreed to implement plans to modernize and expand their respective electricity infrastructure. These plans were premised on the assumptions of robust economic growth and demand and access to affordable credit. In light of Russia's economic recession and continuing tight financial conditions due to the global financial crisis, these investment obligations continue to be very expensive. While a few investors have backed out of acquisition deals, most sought to renegotiate the terms of their acquisitions with the Russian government. This renegotiation process has not been transparent and the results are unclear. Nonetheless, modernization and expansion of the sector's infrastructure – a major purpose of the reorganization – has been delayed substantially. The August accident at the Sayano-Shushenskaya hydroelectric plant highlighted the fragility of the sector's infrastructure. It should be noted though that the process of deregulation has followed the Government of Russia's initial plans, despite pressures to slow it down.

In aviation, many of the Russian-flagged carriers have aging fleets and use outmoded avionics and engines. Several are seriously considering significant purchases or wet-leases of foreign aircraft in an attempt to be more competitive with Western airlines, but these companies are under stress due to the financial crisis and lack of financing, so purchases are difficult at this time.

When purchases do occur however, the effect of tariffs, VAT, and customs handling fees on aircraft is equivalent to a 40% tax, making it virtually impossible for Russian airlines to afford to purchase foreign planes. That said, a few high-level government resolutions have created temporary exceptions to facilitate key purchases for leading airlines. Regulations and tariff levels in this area remain subject to change and potential market entrants should check on current conditions.

New regulations have also been introduced for certain cargo aircraft. Previously, cargo aircraft were subject to general regulations and were not classified into separate categories. Under the new regulations, the customs duty rate applicable to cargo aircraft having a maximum take-off weight in excess of 370,000 kg depends on whether such aircraft have an installed cargo ramp. If a cargo aircraft has a maximum take-off weight in excess of 370,000 kg and an installed cargo ramp, it is subject to 20% customs duty. If such aircraft has no cargo ramp, it is subject to a 0% customs duty.

On October 25, 2009, the Russian government decided to further delay the introduction of a high export duty on raw timber, leaving the tariff unchanged in 2010 (and possibly in 2011) at the current level of 25% (but no less than 15 euros per cubic meter). Previously, the Russian authorities had planned to introduce a prohibitive 80% export tariff (but no less than 50 euros per cubic meter), starting in January 1, 2009, and then delayed to January 1, 2010.

Starting November 25, priority will be given to trademark owners registered in the Russian Federation to additionally register their domain names in a new Cyrillic alphabet format. The Russian Coordinating Center of the National Internet Domain issued a regulation, "Provisions on Priority Registration of Domain Names in the PΦ Domain" that stipulates that domain names must either reproduce or match word designations contained in trademarks. Trademark owners with a ".RU" (Russia) domain name can keep the ".RU," but now have the option of obtaining a ".PΦ." .PΦ domain names may be registered for a fee of approximately \$40 for a one-year period, with the possibility of subsequent renewal of the domain name's registration annually.

Priority registration of domain names in the .PΦ domain will be available to right holders of trademarks in Cyrillic only. Consequently, owners of trademark registrations in the Latin alphabet will be able to register Cyrillic domain names only during a subsequent "auction" period (intended to take place from April 12, 2010 to June 4, 2010) and a "free-for-all" domain name registration period (which would allegedly begin on June 7, 2010). This extends to well-known trademarks in the Latin alphabet.

A law on electronic digital signatures went into effect on January 14, 2002. This law does not follow the Model Law on Electronic Signatures of the U.N. Commission on International Trade Law, but rather defines electronic signatures narrowly, making public-key technology the sole acceptable digital signature technology. It also requires that hardware and software used in digital signature authentication programs be certified in Russia. This requirement gives the Russian government the right to insist on the decompilation of electronic signature programs.

These requirements, in addition to the licensing requirements related to goods with encryption technology, present serious obstacles to trade in goods that Russia requires for further development of electronic commerce. Currently, any IT product requires a notification from the Russia's Federal Security Service (FSB), which a company should be able to obtain in 10 days. If the product contains low levels of cryptography, the FSB can grant authorization to import. If the product contains higher levels of cryptography, the FSB informs the importer of the need to apply for an import license from the Ministry of Industry and Trade. This permission and licensing process can take six months or longer to complete. Leading U.S. IT companies contend that the current system impedes imports, delays the creation of an innovation and knowledge-based economy in Russia, and hampers the further development of their R&D centers in Russia.

Both Russian and foreign businesses frequently complain about so-called "raiding" ("reiderstvo"), a practice which refers to the criminal takeover of a business through corruptly obtained legal documents. Raids are often carried out by professional raiders, sometimes working in tandem with corrupt officials and former employees or business partners of the victim company. Raids can be difficult to protect against as they rely on legal documents and frequently result in the victim being tied up in litigation for extended periods of time while the assets are transferred through a series of shell companies to an ostensible good faith purchaser. To minimize the risk of such attacks, investors are urged to vet local partners, review all business documents and make sure that documents are properly secured.

As many details regarding the operation and implementation of the TCU are still being worked out, there is much confusion in many areas such as import licenses, customs procedures and IPR enforcement. As part of the TCU preparations, the GOR is planning to standardize in 2010 Russia's technical regulations with European ones. These proposed regulations will increase restrictions on trade practices and are likely to have a large impact on U.S. exports to Russia.

## **Import Requirements and Documentation**

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The TCU harmonized tariffs entered into effect on 1 January 2010, and the unified Customs Code is expected to take effect from July 1, 2010 to regulate the resulting integrated customs zone. The new TCU is currently establishing its structure, harmonizing its tariffs, determining revenue sharing, and organizing logistical procedures for shipments. As a result, U.S. exporters could face additional delays, valuation questions, and other issues for much of the year.

Customs clearance as a general rule should be performed in the jurisdiction of the respective participants in foreign economic operations. Starting January 1, 2010, goods transiting to Russia and/or Kazakhstan from foreign suppliers through Belarus will be customs cleared at the TCU's external frontier in Belarus. It is also planned that, starting July 1, 2010, goods imported through Kazakhstan should be customs cleared on the Kazakhstan border.

Importers are required to complete a Russian customs freight declaration for every item imported. A declaration must be supported by the following documents: contracts, commercial documents such as commercial invoices and packing lists, transport documents, import licenses (if applicable), certificates of conformity and/or safety (see "Product Standards" below) certificates of origin (if applicable), sanitary certificate (if applicable), import permission and licenses for products containing encryption technology, and documents confirming legitimacy of declarants/brokers/importers.

As for all exports, U.S. exporting firms are required to complete a Shipper's Export Declaration (SED) but this document does not need to be presented to Russian Customs, although they may ask for it. Exporters must present the appropriate export license (see next section), if one had to be obtained, at customs. Customs officials may seek other documentation to substantiate the declared value of any shipment.

In addition, currency control regulations require issuance of a "transaction passport" for both exports and imports to ensure that hard currency earnings are repatriated to Russia. The regulations also ensure that transfers of hard currency payments for imports are for goods actually received and properly valued.

## **U.S. Export Controls**

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The U.S. Department of Commerce's Bureau of Industry and Security (BIS) is responsible for implementing and enforcing the Export Administration Regulations (EAR), which regulate the export and re-export of some commercial items, including "production" and "development" technology. The items that BIS regulates are often referred to as "dual use" since they have both commercial and military applications. Please note that even commercial items without an obvious military application may be subject to the EAR and may even require an export license. Items with an Export Control Classification Number (ECCN) that are regulated for Chemical and Biological Weapons (CB), National Security (NS), Missile Technology (MT), Regional Stability (RS) or Crime Control (Column 1 or 2) purposes may require a license from BIS for export to Russia.

Further information on export controls is available at:  
<http://www.bis.doc.gov/licensing/exportingbasics.htm>

BIS has developed a list of "red flags," or warning signs, intended to discover possible violations of the EAR. These are posted at: <http://www.bis.doc.gov/enforcement/redflags.htm>

Also, BIS has "Know Your Customer" guidance at:  
<http://www.bis.doc.gov/Enforcement/knowcust.htm>

If there is reason to believe a violation is taking place or has occurred, report it to the Department of Commerce by calling the 24-hour hotline at 1(800) 424-2980, or via the confidential lead page at: <https://www.bis.doc.gov/forms/eeleadsntips.html>

The EAR does not control all goods, services, and technologies. Other U.S. government agencies regulate more specialized exports. For example, the U.S. Department of State has authority over defense articles and services. A list of other agencies involved in export control can be found on the BIS web site or in Supplement No. 3 to Part 730 of the EAR, which is available on the Government Printing Office Web site at:  
[http://www.access.gpo.gov/bis/ear/ear\\_data.html](http://www.access.gpo.gov/bis/ear/ear_data.html).

BIS provides a variety of training sessions to U.S. exporters throughout the year. These sessions range from one to two day seminars and focus on the basics of exporting as well as more advanced topics. A list of upcoming seminars can be found at:  
<https://www.bis.doc.gov/seminarsandtraining/index.htm>

For further details about the Bureau of Industry and Security and its programs, please visit the BIS website at: <http://www.bis.doc.gov>

## **Temporary Entry**

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Temporary entry of goods is allowed with full or partial relief from customs duties and import VAT for a period of up to two years. Russian Customs issues authorization for temporary entry of goods based on a written application submitted by an importer. The list of goods for temporary entry with full relief from customs duties and taxes as well as terms of such relief is regulated by the Russian government.

Full conditional relief from customs duties is allowed when it does not affect the Russian economy, such as the temporary import of:

- Containers, pallets, and other types of containers and packages for repeated use;
- Goods for the purposes of the development of international relations in the scientific, cultural, sports, cinematography and tourism fields;
- Products for international assistance;
- Commercial samples, not for sale, used at trade shows and exhibitions.

All goods falling outside of this list are subject to partial relief only, as established by the Customs Code. Article 213 of the Customs Code provides for temporary import with a partial exemption from customs duties for 34 months when goods are classified as main production assets on the condition that such goods are not owned by the Russian entities using them in the territory of the Russian Federation. When partial relief from customs duties is applied, 3% of the amount of customs duties and taxes should be paid on a monthly basis for the period when goods are located in the customs territory of the Russian Federation. In practice, however, many U.S. companies bringing in commercial samples have had problems with Russian Customs. Sometimes officials demand that the importer pay a bond to cover any applicable

import duties if the goods are sold in Russia. Russian Customs accepts the use of ATA Carnets, which are widely and effectively used.

For further information, please refer to the Russian State Customs Committee Website: <http://www.customs.ru/en>, or <http://www.tks.ru>

## **Labeling and Marking Requirements**

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Labels on food items must feature the following information in the Russian language:

- Type and name of the product;
- Legal address of the producer (may be given in Latin letters);
- Weight/volume of the product (if item is preserved in liquid, weight without liquid mass);
- Food contents (name of basic ingredients/additives listed by weight in decreasing order);
- Nutritional value (calories, vitamins if their content is significant or if product is intended for children, for medical, or for dietary use);
- Conditions of storage;
- Expiration date (or production date and period of storage);
- Directions for preparation of semi-finished goods or children's foodstuffs;
- Warning information with regard to any restrictions and side effects;
- Terms and conditions of use.

Labels on nonfood items must include:

- Name of the product;
- Country of origin and name of manufacturer (may be given in Latin letters);
- Usage instructions;
- Main characteristics, rules and conditions for effective and safe use of product;
- Any other information determined by the state regulation body.

It is advisable to place the Rostest mark on the label for products that have appropriate Rostest and sanitary- epidemiological certificates. This rule is applicable to both food and nonfood items.

## **Prohibited and Restricted Imports**

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The import and export of goods in Russia is carried out in accordance with the Federal Law on "Government Regulation of International Trade Activities" of 2003, which stipulates the application of quotas, licenses and other temporary restrictions on such operations.

Import licenses are issued by the Russian Ministry for Economic Development or its regional branches, and controlled by the State Customs Committee. Licenses for sporting weapons and self-defense articles are issued by the Interior Ministry. Licenses are required for many other items as well including:

- Alloys
- Carpets
- Color televisions (14, 21, and 25-inch)
- Combat and sporting weapons
- Ethyl alcohol

- Explosives
- Medicine
- Military and ciphering equipment
- Precious metals
- Radioactive materials and waste
- Self-defense articles
- Stones
- Strong poisons and narcotics
- Tobacco products
- Vodka and many other types of alcoholic beverages

To learn whether an import license is needed for a particular product, contact the Russian Ministry of Economic Development licensing department ([www.economy.gov.ru](http://www.economy.gov.ru)).

### **Customs Regulations and Contact Information**

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As a member of the World Customs Organization, the Convention of Temporary Imports and the International Convention on Harmonized Commodity Description and Coding System, Russia is obligated to adhere to internationally accepted customs regulations and practices. In January 2004, Russia implemented a new Customs Code as part of its WTO accession efforts. The new code reduced the time for customs clearance from ten to three days. It also offered advance declaration of cargo before arrival at customs. Other important changes introduced by the Code included:

- Restricting the Russian Federation State Customs Committee from issuing contradictory additional regulatory acts;
- Making possible the settlement of disputes with customs authorities directly in a court of law;
- Establishing a definitive and comprehensive list of documents that must be submitted for customs clearance;
- Prohibiting customs authorities from refusing to accept a declaration containing inaccuracies, if the inaccurate information has no impact on the defrayal of customs payments, or does not place restrictions in foreign trade;
- Allowing clearance of goods through any customs office;
- Providing urgent customs clearance for perishable goods, express cargoes, or time-sensitive materials for the mass media.

After several years of working under the Russian Federation's new Customs Code, the government and business community have acknowledged that amendments are now needed. While well-received by all parties concerned as a first step in 2003, most liberal and progressive provisions of the Customs Code proved to be difficult to apply. Additionally, customs practitioners have found that the Code, designed to meet WTO requirements, still leaves much to the discretion of customs authorities.

Recently, the priorities for customs modernization included improvement in regulations, implementation of IT systems and enhanced dialogue with market participants. There is also a clearer understanding of the continued need for customs to take effective action against significant levels of grey market practices and to implement effective control coordinated on a global scale. However, many examples of arbitrary practices by local customs officials still exist



and are encouraged by ambiguities in customs legislation. Small and medium-sized enterprises remain most vulnerable to these arbitrary practices.

## Customs Valuation

The customs value is generally considered to be the CIF (cost-insurance-freight) price of the imported goods. A customs-processing fee is also levied. If customs officials do not agree with the customs value of goods declared they are authorized to request additional documents that support the declared customs value. It is often normal practice for customs officials to request the Shippers Export Declaration (SED), which they consider to be proof of the customs value. However, presenting SED is not mandatory and the importer can present other available documents, including an official company letter that attests to the shipment's correct value. Since the economic crisis began, Russian Customs has become particularly zealous in its efforts to determine the highest possible value for imported goods. In fact, it has recently highlighted its role in "revenue generation," whose income comprises about 50% of Russia's state budget.

For further information, please refer to the Russian State Customs Committee Website:  
<http://www.customs.ru/en>

### Standards

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### Overview

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Despite positive changes in the last several years, the standards regime in Russia still lacks transparency. Russia continues to rely on product testing as a key element of the product approval process. Other types of product safety assurance, such as plant auditing, quality systems, and post market vigilance, are underdeveloped. Russia continues to adhere to redundant practices of further testing of internationally accepted certified products, which can delay entry of a variety of products into the country.

In addition, the former federal authority on standardization, Gosstandart, has been restructured twice as part of a larger government reorganization begun in May 2004, which led to some uncertainty as to exactly who in the agency did what, further adding to delays in discharging its functions. The current government authority for standardization, metrology and certification matters is the Federal Agency for Technical Regulations and Metrology (whose abbreviated name is Rostekhnregulirovanie) an agency of the Ministry of Industry and Trade. Nevertheless, the old abbreviation, Gosstandart, continues to be widely used. (As of this writing, President Medvedev has agreed to change Rostekhnregulirovanie's name to Rosstandart.) Affiliated with this new agency are 478 technical committees, comprised of research institutes, which develop standards.

The following are the key government standards organizations in Russia.

**Federal Agency for Technical Regulations and Metrology (Rostekhnregulirovanie)**

9, Leninsky Prospekt  
Moscow 119991  
Tel: 7 (495) 236-0300  
Fax: 7 (495) 236-62-31  
E-mail: [info@gost.ru](mailto:info@gost.ru)  
<http://www.gost.ru/>

**Federal Service for Control over Healthcare and Social Development (Roszdravnadzor;**  
issues special regulatory approval documents for pharmaceutical products and medical devices)

Slavyanskaya sq. 4, building 1  
Moscow, 109074  
Tel.: 7 (495) 698-4538  
E-mail: [info@roszdravnadzor.ru](mailto:info@roszdravnadzor.ru)  
<http://www.roszdravnadzor.ru>

**Federal Service for Supervision of Consumers Protection and Welfare (Rospotrebnadzor)**

Vadkovskiy pereulok, house 18, stroenie 5 and 7  
Tel.: +7 (499) 973-26-90  
E-mail: [depart@gsen.ru](mailto:depart@gsen.ru)  
<http://www.rospotrebnadzor.ru/>

**Federal Service for Ecological, Technological and Nuclear Surveillance (Rostekhnadzor)**

ul. Luykyanova, house 4, korpus 8  
105066 Moscow  
Tel.: 7 (495) 411-6020, (499) 261-2684, (499) 261-3024  
Fax: 7 (495) 411-6052  
E-mail: [rostekhnadzor@gosnadzor.ru](mailto:rostekhnadzor@gosnadzor.ru)  
<http://www.gosnadzor.ru/contacts>

**Ministry of Communications and Mass Media**

7 Tverskaya Street  
Moscow, Russia  
Tel: 7-495-771-8100  
Fax: 7-495-771-8710  
E-mail: [office@minsvyaz.ru](mailto:office@minsvyaz.ru)  
<http://minkomsvjaz.ru>

**VNIIS (Research Institute for Certification)**

3/10, Elektrichesky Pereulok, Building 1  
Moscow 123557 Russia  
Phone: 7 (495) 253-7006  
Fax: 7 (495) 253-3360  
E-mail: [vniis@vniis.ru](mailto:vniis@vniis.ru)  
<http://www.vniis.ru>

## **NIST Notify U.S. Service**

Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. As Russia is not yet a member of the WTO, Russian standards are not included in this system. Register online at Internet URL: <http://www.nist.gov/notifyus>

## **Conformity Assessment**

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In recent years there has been a substantial movement toward the adoption of common international language on product standards and certification procedures, and some improvements have been made. In 1998, the Russian government established a public information service for regulations covered by the Technical Barriers to Trade (TBT) Agreement in the World Trade Organization (WTO); however, technical difficulties have plagued this service and it has not been an easily accessible or reliable source of information. On July 31, 1998, amendments to Federal Law No. 5151-1 "On Certification of Products and Services" (enacted on June 10, 1993) went into effect, which generally meet requirements of the TBT Agreement. The law allows a manufacturer to submit a declaration of conformity in the certification procedure for a limited number of products. The government has established a list of 200 products eligible for this procedure, which periodically changes.

Federal Law No. 184 – FZ "On Technical Regulations" of December 27, 2002 was intended to change the existing cumbersome standardization and certification systems and harmonize Russian legislation with international standards by transitioning from a mandatory certification system to a modern system based on self-declaration. To that end, the government approved three consecutive programs aimed at developing 400 technical regulations that should be used instead of the old GOST standards. Only 15 technical regulations were developed, however, which are in operation today. One of the reasons cited for the delay of this reform is the complicated system of approval. Also, a number of government bodies resisted the creation of these technical regulations because they wanted to return to the old system where they controlled these regulations. One of the main supporters of the old system was Rostekhnregulirovanie, formerly Gosstandart.

To move this reform process along, in December 2009 amendments to Federal Law No. 184 – FZ were approved. According to these amendments, a special government body would use a much simpler process of approving technical regulations. Many experts assumed that Rostekhnregulirovanie would become that government body, but on January 20, 2010, President Medvedev announced that the functions in this area will be divided between the Ministry of Industry and Trade and Rostekhnregulirovanie, which is, in fact, under the Ministry's jurisdiction. The President instructed the Ministry to prepare a government program for the development of technical regulations by February 20, 2010. The Minister of Industry and Trade has said that the Ministry is ready to propose 65-67 top priority technical regulations. The Minister also declared the need to introduce amendments to the Code of Administrative Offences that will strengthen the responsibility of manufacturers, certification bodies, testing laboratories and other market players for violations in the area of technical regulations.

Rostekhnregulirovanie and its authorized agents are the chief agencies for certification in Russia and manage the GOST-R certification system. Historically GOST-R standards are based on GOST standards that were originally developed by the Soviet government. Authorized agents of Rostekhnregulirovanie currently test and certify products according to Russian government standards rather than other widely accepted international standards (for example the ISO-9000 system). A list of accredited certification authorities and test laboratories is published on the website of Rostekhnregulirovanie.

According to Federal Law No.184 – FZ “On Technical Regulations” of December 27, 2002 there is mandatory (certificates printed on blue paper) and voluntary certification (certificates printed on yellow paper). Mandatory certification is basically conformity certification issued by accredited certification bodies. In order to establish whether a particular product requires mandatory certification, a company should check the OKPO number (assigned by the Russian Product Classification) that is not fully identical to TNVED codes (Foreign Trade Classification).

A number of other mandatory and voluntary certification systems also exist, which are partly managed by other ministries or agencies. Below are the most widely used certificates:

*GOST R Certificate:* is issued by certification bodies accredited by Rostekhnregulirovanie. It confirms that a product is in compliance with the technical standards and rules applicable in Russia. The process is described in Rostekhnregulirovanie’s Order No. 15 of June 25, 1996 and No. 60 of July 11, 2002. The products requiring this certificate are listed in the addendum of Rostekhnregulirovanie’s Order No. 64 of June 30, 2002.

*Sanitary- Epidemiological Conclusion (Hygiene Certificate):* is issued by Rospotrebnadzor. It confirms that a product is in compliance with the sanitary-hygiene standards and rules applicable in Russia. The process and the list of products requiring this certificate are listed in Rospotrebnadzor’s Order No. 224 of June 19, 2007.

*Fire Safety Certificate:* The Federal Law No. 123 – FZ “Technical Regulations of Requirement for Fire Safety” that came into effect on May 1, 2009 now governs this process. Products requiring this certificate are listed in the Government Decree No. 241 of March 3, 2009.

*Certificate from Ministry of Communications and Mass Media:* or certificate of conformity to the “Svyaz” system, confirms that the equipment conforms to technical requirements of the Ministry and also that the equipment was tested in the GOST-R system for safety and electromagnetic compatibility. It is issued by the Federal Agency of Communications (Rossvyaz). Approximately 200 types of products require this certificate including cables, phones, and software for telecommunications. There are two types of certification: certification of products and certification of manufacturing processes.

*License (permission) from Rostekhnadzor:* allows the manufacture, installation and use of industrial machinery and equipment for the petrochemical, metallurgical and other industrial facilities in Russia. The process and the list of products requiring this certificate are listed in Rostekhnadzor’s Order No. 112 of February 29, 2008.

*Approval for Encrypted Products:* is issued by Federal Security Service (FSB), while an import license is issued by the Ministry of Industry and Trade.

Russia participates in the following international certification systems:

- System of the International Electrotechnical Commission (IEC) for tests of electrical, electronic and related equipment on conformity to safety standards (<http://www.iec.ch>, [www.iecq.org](http://www.iecq.org))
- System of certification of passenger cars, trucks, buses and other transport vehicles ([www.unece.org](http://www.unece.org))
- System of certification of handguns and ammunition (<http://www.com-i-p.com>)
- OIML Certificate System of Measuring Instruments (<http://www.oimi.org>)

Russia's complicated, cumbersome and often changing system of certification as well as cultural and language barriers create a challenge to foreign companies attempting to certify products without appropriate legal advice or assistance from experienced distributors or consultants. In order to minimize time and expenses, it is recommended that U.S. companies work with reliable partners and consulting companies on registration and certification issues. For additional information regarding certification, please contact the U.S. Commercial Service.

**Certification Service Providers** (this list is not exhaustive and is not to be construed as an endorsement of the companies listed below).

### ***Russia***

#### **Rostest Moscow (various products)**

Russian Center for Tests and Certification  
31 Nakhimovsky Prospect,  
Moscow 117418 Russia  
Phone: 7 (495) 129-1911  
Fax: 7 (499) 124-9996  
E-mail: [info@rostest.ru](mailto:info@rostest.ru)  
<http://www.rostest.ru/>

#### **Consult Business Group (Medinform Ltd., Pharminform Ltd.) (pharmaceutical products including biological active supplements, medical equipment and cosmetics)**

Butyrskaya ul, 77, Business Center "Diagonal House", 8 floor  
127015 Moscow  
Tel.: 7 (495) 797-4963  
E-mail: [info@c-b-g.ru](mailto:info@c-b-g.ru)  
<http://www.c-b-g.ru/about>

#### **Sert Test (mostly construction equipment)**

1 Dubrovskaya ul, h.1, korpus 2  
109044 Moscow  
Tel. + 7 (495) 626-21-67  
E-mail: [sert71@mail.ru](mailto:sert71@mail.ru)  
<http://www.sert-test1.ru>

### ***United States***

#### **Accreditation Velosi America, LLC (Oil & gas, petrochemical and refining industries)**

<http://www.velosi-usa.com>

**Nemko USA, Inc.**

<http://www.nemko.com>

**Russian Standard, Russian Certification Center** (almost all areas, except aviation equipment and aviation instruments, military products, telecommunication equipment)

<http://www.rosstandard.com>

**TUV America Inc.** (IT, including telecommunications, computers, printers and other equipment)

<http://www.TUVamerica.com>

**TUV Rheinland** (IT, industrial machinery, household appliances and medical/scientific equipment)

<http://www.us.tuv.com>

**Underwriters Laboratories (UL)** (IT, electrical/electronic apparatus, laboratory and measurement equipment, household/commercial appliances and hazardous location equipment)

<http://www.ul.com>

**Accreditation**

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Presently in Russia, various federal executive authorities carry out accreditation in accordance with the relevant legislation. Bureaucratic incongruities, overlapping fields of activity and the application of different procedures and criteria in the accreditation process are common occurrences. Often, the accreditation and certification activities of several federal executive authorities overlap.

Certification authorities and test laboratories, both Russian and foreign, are accredited in accordance with the following documents: GOST-R ISO/IEC 65-2000, GOST-R ISO/IEC 62-2000, GOST-R ISO/IEC 17025-2006, GOST-R 51000.4-2008, GOST-R 51000.6-2008.

Currently, each individual Ministry, Rostekhnregulirovanie and the Research Institute for Certification (VNIIS) can accredit laboratories in their relevant industry sectors. Rostekhnregulirovanie runs the state register of all accredited organizations.

Government Decree No. 163 "About Accreditation of Organizations that Assess Compliance with Technical Regulations" was signed on February 24, 2009 and is published on Rostekhnregulirovanie's website. In addition, Rostekhnregulirovanie prepared comments on this decree that are also published on its website.

**Publication of Technical Regulations**

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Proposed technical regulations are published (in Russian) on the Rostekhnregulirovanie website (<http://www.gost.ru>) for two months. Any Russian or foreign entity may comment in Russian to the contact listed on the website. Draft and final documents are published in the monthly "Vestnik of Gosstandart of Russia" journal. This journal is an official publication of Rostekhnregulirovanie where it publishes its official documents instructions, rules, and decrees. "Vestnik of Gosstandart of Russia" is the country's effort to ensure transparency in the development of national standards required for WTO compliance. WTO membership presumes that all changes in the standardization system will be transparent, thereby avoiding hidden

obstacles (non-tariff barriers) in trading relations with WTO partners.

Another publication that can be found on Rostekhnregulirovanie's website is "Mir Standartov" ("World of Standards").

## **Labeling and Marking**

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Please see the "Labeling and Marking" section above.

## **Contacts**

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### **U.S. Commercial Service - Moscow**

8 Bolshoy Deviatinsky pereulok

Moscow 121099, Russia

Tel: 7 (495) 728-5580

Fax: 7 (495) 728-5585

E-mail: [Moscow.Office.Box@mail.doc.gov](mailto:Moscow.Office.Box@mail.doc.gov)

## **Trade Agreements**

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Russia currently participates in a free trade agreement with the Commonwealth of Independent States and the new Trilateral Customs Union with Belarus and Kazakhstan. Russia also has an association agreement with the European Union, the Russia-U.S. Bilateral Meat Agreement of 2005, and has historically received NTR and GSP status from the United States.

## **Web Resources**

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### **Bureau of Industry & Security, U.S. Department of Commerce**

Main site: [www.bis.doc.gov](http://www.bis.doc.gov)

Export Controls: [www.bis.doc.gov/licensing/exportingbasics.htm](http://www.bis.doc.gov/licensing/exportingbasics.htm)

Possible Violations: [www.bis.doc.gov/enforcement/redflags.htm](http://www.bis.doc.gov/enforcement/redflags.htm)

Forms: <https://www.bis.doc.gov/forms/eeleadsntips.html>

Russian Federal Customs Service: [www.customs.ru/en](http://www.customs.ru/en)

Russian Ministry for Economic Development: <http://www.economy.gov.ru>

Russian Ministry of Industry and Trade: <http://www.minprom.gov.ru/eng>

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## Chapter 6: Investment Climate

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### **Openness to Foreign Investment**

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The investment climate in Russia has strengthened in recent years and now presents many promising investment opportunities. Russia recognizes foreign investment's critical role in the country's economic development and is trying to encourage foreign investment by establishing special economic zones, high-technology parks, special tourist regions, and export zones on both federal and regional levels. Capital account liberalization assisted in raising net inflows to Russia from \$40 billion in 2006 to \$82 billion in 2007. However, Russia was one of the countries most adversely affected by the financial crisis starting in 2008, with 2009 GDP dropping by 8.7%. From 2004-2008, foreign direct investment (FDI) inflows picked up substantially, rising to over \$62 billion in 2008. However, because of the economic crisis, FDI inflows decreased from \$40 billion during the first half of 2008 to \$16 billion in the same period of 2009. The crisis also caused a net capital outflow of \$130 billion in 2008, and for the first three quarters of 2009 Russia had a net outflow of over \$60 billion. In the last quarter of 2009, the flow reversed direction, and the Central Bank estimates net capital outflow for all of 2009 went down to \$42 billion.

The investment climate has been undermined by the slow pace of structural reforms and the government's ever-increasing role in certain sectors of the economy, notably gas and energy. Other government actions have had adverse effects on the investment climate, such as the apparently politically motivated investigations into businesses (e.g., the TNK-BP oil and gas joint venture, the Mechel coal company, and the investment fund Hermitage Capital Management) and a reluctance to allow foreign investors de facto unfettered access. Rule of law, corporate governance, transparency, and respect for property rights, including intellectual property rights, have improved over the years but remain key concerns for foreign investors. Possible liabilities



associated with existing operations (especially environmental cleanup) and inadequate bankruptcy procedures are also factors in the decision to invest. In short, while there is strong interest, many U.S. companies remain cautious about investing in Russia.

There is a legal structure in place to support foreign investors, although the laws are not always enforced in practice. The 1991 Investment Code guarantees foreign investors rights equal to those of Russian investors, although some industries have limits on foreign ownership (discussed below). The 1999 Law on Foreign Investment also affirms this principle of equal treatment. Unfortunately, corruption plays a sizeable role in the judicial system, and the sanctity of contracts is not always upheld (see the Dispute Settlement section).

Numerous laws have been amended in the past decade that serve to increase investment opportunities in specific industries. In 2003, Russia enacted several amendments to the insurance law that liberalized the market, effectively allowing any foreign insurer to set up life insurance operations in Russia as long as the company has an office in the EU via which the investment was made. Since 2005, Russia has introduced several pieces of legislation that have offered reduced customs and tariffs rates on automobile parts to encourage foreign automobile corporations to begin manufacturing their products in Russia. In the spring of 2005, President Putin announced four National Priority Projects in health, education, housing, and agriculture. These projects, which aim to tackle some of Russia's most pressing social and economic needs, provide investment opportunities in sectors such as medical equipment manufacturing, agricultural equipment sales, and housing construction. The 2009 budget for the projects was RUR 450 billion (\$15 billion), notably more than the 2008 budget of RUR 330 billion (\$11 billion).

Russia's government officials have repeatedly stressed the need for foreign investments, especially those aimed at developing Russia's high-tech sectors, as one of the prerequisites for Russia's successful economic recovery after the economic crisis. At the same time, the government adopted new policies aimed at more effective control over foreign investments into so-called "strategic sectors" of the Russian economy. In May 2008, then President Putin signed into law the "Strategic Sectors Bill." The law, which grandfathered already completed acquisitions, specifies 42 activities that have strategic significance for national defense and state security and establishes an approval process for foreign investment in these strategic areas. According to the law, investors wishing to increase or gain ownership above certain thresholds need to seek prior approval from a government commission headed by Russia's Prime Minister. With investment down in 2009, this commission has not been active enough yet to get a good sense of its function. But foreign investors fears that the approval process might be non-transparent and burdensome, and that the law could be used to restrict foreign investors seeking to invest in Russia's strategic sectors.

Russia's government also tends to favor direct cash injections and joint ventures with local entities, especially state-owned entities, and particularly in Russia's "strategic sectors." The energy sector is the most prominent of these; the government continues to tighten its grip and typically limits foreign companies to minority stakes (20 to 25%) in larger projects. In December 2008, a resolution was passed that increased the duty on most imported vehicles from 25% to 30% and imposed a prohibitive duty on cars older than five years. This move was perceived as a means of helping local auto manufacturers weather the financial crisis. Less critical sectors, such as consumer products, are relatively unrestricted.

Between 2003 and 2009, the share of the private sector in GDP decreased from 70% to 65%, according to the European Bank for Reconstruction and Development. Roughly three quarters

of the economy has been privatized to date, although the government continues to hold significant blocks of shares in many privatized enterprises. The economic crisis had an adverse effect on the privatization process. However, the government announced in November 2009 that it plans to privatize at least 14 strategic enterprises, among them Russia's largest shipping company Sovcomflot and multiple ports that handle large amounts of crude oil and assets. In total, Russia's government expects to receive RUR 77 billion (\$2.7 billion) from the privatization of state enterprises in 2010.

Treatment of foreign investment in new privatizations is inconsistent and is likely to remain so. Often, foreign investors participating in Russian privatization sales are confined to limited positions and face problems with minority shareholder rights and corporate governance. Potential foreign investors are advised to work directly and closely with appropriate local, regional, and federal ministries and agencies that exercise ownership and other authority over companies whose shares they may want to acquire.

The following tables include the most recent data from indices measuring the investment and business climate in Russia:

Source: WTI (World Trade Indicators)

<b>Index</b>	<b>Year</b>	<b>Percentile Rank (0-100)</b>	<b>Governance Score (-2.5 to 2.5)</b>
MCC Government Effectiveness	2008	45.0	-0.32
MCC Rule of Law	2008	19.6	-0.91
MCC Control of Corruption	2008	15.5	-0.98
MCC Regulatory Quality	2008	31.4	-0.56

Source: World Bank Doing Business/IFC

<b>Index</b>	<b>Year</b>	<b>Ranking 1 (1-183, 1 best)</b>	<b>Ranking 2 (1-183, 1 best)</b>
World Bank Doing Business	June 2008-May 2009	Ease of Doing Business: 24	---
MCC Business Start Up	June 2008-May 2009	Business Start Up: 22	---
MCC Land Rights Access	June 2008-May 2009	Dealing with Cost Permits: 27	Registering Property: 11

Source: Other

<b>Index/Ranking</b>	<b>Year</b>	<b>Ranking</b>
TI Corruption Index	2009	Ranking (1-10, 10 best): 2.2 (146/180)
Heritage Economic Freedom	2009	Percentile Rank (0-100): 50.8 (146/179)
MCC Trade Policy (Heritage)	2009	Percentile Rank (0-100): 60.8 (trade freedom)
MCC Natural Resource Mgmt	2009	91.2 (0 - 100, 0 best)

## **Conversion and Transfer Policies**

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While the ruble is the only legal tender in Russia, companies and individuals generally face no significant difficulty in obtaining foreign exchange. Finding a bank licensed to conduct foreign currency transactions is not at all difficult, there are no limitations on the inflows or outflows of funds for remittances, and there is generally no delay period for remitting investment returns. Nonetheless, investors would be well advised to seek expert advice on the controls in effect at the time of an investment.

Currency controls exist on all transactions that require customs clearance, which in Russia applies to both import and export transactions and certain loans. A corporation must open a "transaction passport" with the Russian authorized bank through which it will receive and service the transaction or loan. A deal passport is a set of documents that importers and exporters provide to authorized banks. Such documents enable banks, the agents of Russian currency control, to monitor payments in respect of the transaction or loan and to report the corporation's compliance with currency control regulations to the Central Bank. Russia's regulations regarding deal passports are described under Instructions of the Central Bank of Russia number 117-I of June 15, 2004.

Only authorized banks may carry out foreign currency transactions. According to currency control laws, the Central Bank retains the right to impose restrictions on the purchase of foreign currency, including the requirement that the transaction be completed through a special account. The Central Bank has eliminated security deposit requirements on foreign exchange purchases.

## **Expropriation and Compensation**

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The 1991 Investment Code prohibits the nationalization of foreign investments, except following legislative action and where deemed to be in the national interest. Such nationalizations may be appealed to the courts of the Russian Federation and, according to Russian law, the investor must be adequately and promptly compensated.

At the sub-federal level, expropriation has occasionally been a problem, as has local government interference and a lack of enforcement of court rulings protecting investors. The Embassy is tracking a small number of cases in which U.S. companies are seeking compensation for the loss of their investment or property due to regional government action or inaction.

## **Dispute Settlement**

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Russia has a body of conflicting, overlapping, and rapidly changing laws, decrees and regulations, which has resulted in an ad hoc and unpredictable approach to doing business. Independent dispute resolution in Russia can be difficult to obtain since the judicial system is still developing. Courts are sometimes subject to political pressure. According to numerous reports, corruption in the judicial system is widespread and takes many forms, ranging from bribes of judges and prosecutors to fabrication of evidence. In addition, court decisions are at times not executed. The bailiffs, who are charged with enforcing court judgments, report to the Ministry of Justice rather than the courts. They sometimes fail to enforce those judgments due inter alia to legal restrictions and limited trained personnel.

Many attorneys refer Western clients who have investment or trade disputes in Russia to international arbitration in Stockholm or to courts abroad. A 1997 Russian law allows foreign

arbitration awards to be enforced in Russia, even if there is no reciprocal treaty between Russia and the country where the order was issued. Russia is a member of the International Center for the Settlement of Investment Disputes and accepts binding international arbitration. Russia is also a signatory to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, enforcement of international arbitral awards still requires action from Russian courts and follow-up by bailiffs, which have yet to become consistently effective enforcers of court judgments.

Commercial disputes between business entities are heard in the arbitrage court system. That court system has special procedures for the seizure of property before trial such that it cannot be disposed of before the court has heard the claim, as well as for the enforcement of financial awards through the banks. Additionally, the International Commercial Arbitration Court at the Russian Chamber of Commerce and Industry will hear claims if both parties agree to refer disputes there. A similar arbitration court has been established in St. Petersburg. As with international arbitral procedures, the weakness in the Russian arbitration system lies in the enforcement of decisions.

#### **Performance Requirements and Incentives**

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Performance requirements are not generally imposed by Russian law and are not widely included as part of private contracts in Russia. However, they have appeared in the agreements of large multinational companies investing in natural resources and in production sharing legislation. There are no formal requirements for offsets in foreign investments. Since approval for investments in Russia frequently depends on relationships with government officials and on a firm's demonstration of its commitment to the Russian market, this may result in offsets in practice.

#### **Right to Private Ownership and Establishment**

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Both foreign and domestic legal entities may establish, purchase, and dispose of businesses in Russia. Investment in some sectors that are regarded as affecting national security, such as natural resources, energy, power, communication, transportation, and defense-related industries, may be limited. See section on the strategic sectors law.

#### **Protection of Property Rights**

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The Constitution and a 1993 presidential decree give Russian citizens general rights to own, inherit, lease, mortgage, and sell real property. The rights of Russian citizens to own and sell residential, recreational, and garden plots are clearly established, with over 40 million properties of this type under private ownership. Mortgage legislation enacted in 2004 facilitates the process for lenders to evict homeowners who do not stay current in their mortgage payments, which in theory should make mortgage lending (and the housing market) more attractive to lenders and developers. However, foreclosures and evictions by lenders are rarely tested within Russia's legal system. Mortgage lending is in its initial stages, but its growth, up from an estimated \$5.5 billion of the total amount of outstanding mortgage loans in 2006 to \$27 billion as of October 1, 2008, has been stymied by the domestic credit freeze. Housing prices and transactions fell sharply in the last quarter of 2008 and into 2009. In late 2008, the GOR established the Agency for Restructuring Mortgage Loans to support homeowners affected by the financial crisis through loan restructuring programs. In November 2009, the GOR approved an extension of the Agency programs into 2010. Land ownership rights and limitations for foreign investors are discussed in other sections of this report.

While Russia has made significant advances in improving its intellectual property rights (IPR) protection regime, many challenges remain, including the need for reform of Russia's IPR legal and regulatory framework, a court system with greater expertise in IPR cases, and greater enforcement and investigative efforts from law enforcement and prosecutorial agencies.

Copyright violations (films, videos, sound recordings, and computer software) remain rampant. Legitimate DVD sales are on the rise, however, thanks in part to cheaper legitimate products, a growing consumer preference for high quality goods, and increased law enforcement action against pirates. The local business and entertainment software industries have also reported declining levels of piracy. At the time of writing, Russia's IPR regime lacks regulatory protection for pharmaceutical test data. So far, a draft law "On Circulation of Medicines" passed a first reading in the Duma in late January 2010. This draft does not include the IPR provisions for data exclusivity protection, to which Russia committed in the 2006 bilateral agreement for Russia's WTO accession.

Russia has acceded to the Universal Copyright Convention, the Paris Convention, the Berne Convention, the Patent Cooperation Treaty, the Geneva Phonogram Convention, and the Madrid Agreement. Topologies of integrated microcircuits are protected by Russian law for 10 years from the date of registration, whereas computer programs have the same level of protection as literary works. The copyright term is "Life plus 70". As part of its WTO accession process, the Russian government is working to ensure that Part IV of the Civil Code, its new comprehensive IPR legislation that went into effect on January 1, 2008, is consistent with the requirements of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). In 2008, Russia applied to join the World Intellectual Property Rights Organization (WIPO) Copyright Treaty and the Performance and Phonograms Treaty, and ratified the two treaties in early 2009.

## **Transparency of Regulatory System**

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The legal system in Russia remains in a state of flux, with various parts of the government continuing to create new laws and regulations on a broad array of topics, including the tax code and requirements of other regulatory and inspection bodies. Negotiations and contracts for commercial transactions, as well as due diligence processes, continue to be complex and protracted. Investors must do careful research to ensure that each contract fully conforms to Russian law. Contracts must likewise seek to protect the foreign partner against contingencies that often arise. Keeping up with legislative changes, presidential decrees, and government resolutions is a challenging task. Uneven implementation of laws creates further complications; various officials, branches of government, and jurisdictions interpret and apply regulations with little consistency and the decisions of one may be overruled or contested by another. As a result, reaching final agreement with local political and economic authorities can be a long and burdensome process. Companies should be prepared to allocate sufficient funds to engage local legal counsel to set up their commercial operations in Russia.

Surveys have shown that many entrepreneurs complain about the complexity of the tax code and requirements of other regulatory and inspection bodies. Well-intentioned small- and medium-sized enterprises (SMEs) often go out of their way to follow the law but are then penalized for making mistakes in documentation. They complain that the tax police make no distinction between hard-core tax-evaders and inexperienced SMEs who do not fully understand the bookkeeping requirements. Companies often have little recourse other than the courts during tax disputes. While firms have successfully appealed to the courts, tax authorities are

often slow to implement judicial decisions. Penalties for non-compliance include confiscation of property and freezing a company's bank accounts. Addressing this problem, a new law will go into effect in 2010 that greatly increases the criminal threshold of tax underpayment, forbids pre-trial detention for tax offenses, and allows first-time offenders to escape criminal liability for a tax offence if they pay their arrears during the pre-trial investigation.

## **Efficient Capital Markets and Portfolio Investment**

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The Russian banking system remains relatively small, with RUR 4.6 trillion (\$159 billion) in aggregate capital as of November 1, 2009. The successful implementation of the Deposit Insurance System in 2004 has proved a critical psychological boon to the banking sector, evidenced by growth in overall deposits. Despite measured progress, the Russian banking system is not yet efficiently performing its basic role of financial intermediary (i.e., taking deposits and lending to business and individuals). Even before the financial crisis, the combined value of the assets of Russia's top 200 banks was just over \$1 trillion, and only a quarter of Russians had any kind of a bank account. In the wake of the financial crisis, Russia's banking sector is under stress and may change dramatically in the near to medium term.

Russia's two main stock exchanges are in Moscow: (1) the Russia Trading System (RTS), and (2) the equity trading floor on the Moscow Interbank Currency Exchange (MICEX). After a precipitous drop in 2008, the benchmark RTS index and the MICEX index climbed approximately 130% in 2009. The average daily trading volume is difficult to calculate due to incompatibility between different sources and methodologies. Trading volume is largely dominated by large oil and gas companies such as Gazprom, Rosneft, and Lukoil. Trading activity at Russia's other exchanges, such as the Moscow Stock Exchange and several regional centers, is low.

The Law on the Securities Market, as amended in 2003, includes definitions of corporate bonds, mutual funds, options, futures, and forwards. Companies offering public shares are required to disclose specific information during the placement process, as well as quarterly. In addition, the law defines the responsibilities of financial consultants who assist companies with stock offerings and holds them liable for the accuracy of the data presented to shareholders.

The corporate bond market is currently the most rapidly and dynamically developing sector in Russia's capital markets. High and increasing demand from enterprises for funds in the absence of an effective bank lending system is the main driver of growth. It is also boosted by weaknesses in other sectors of the capital market: the absence of more attractive ruble-denominated alternative asset classes; low and even negative real interest rates on the secondary government securities market; the absence of speculative opportunities on the currency market; and a significant volume of rubles from oil export earnings. In 2008, the face value of new bond issuances was RUR 660 billion. Estimates place the value of 2009 bond issuances at RUR 890 billion.

Steady development notwithstanding, the corporate bond market suffers several problems. It is still quite narrow, which makes it difficult to provide the necessary level of liquidity for relatively small issues, even if the issuer is a blue-chip company. Another problem is the expense of preparation, including development of each issue's parameters, prospectus registration, underwriting services, etc. A 0.8% issuance tax adds to that expense. Another barrier to the growth of the market is a provision of the federal law "On Joint Stock Companies," which requires that the volume of a bond issue not exceed a company's authorized (charter) capital.



In addition to the traditional bond market, in 2008 Russia introduced a law creating “stock exchange bonds,” short term commercial bonds traded on exchanges. Issuances started in earnest in 2009. MICEX reported that by September 1, 2009, there had been 28 stock exchange bond issues worth a total of RUR 69.8 billion placed by 8 issuers.

Hostile takeovers are also common in Russia; both foreign and local firms are targeted. Private companies’ defenses to prevent hostile takeovers target all potential hostile takeovers, not just foreign.

## **Competition from State Owned Enterprises**

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Despite large-scale privatizations, the seven existing state-owned enterprises (SOEs) still play a large role in the Russian economy. In addition, as a result of the economic crisis, the government and state-owned banks have increased their ownership stakes in a number of “private” companies so, while these companies are not formally SOEs, they benefit from some of the same protections as SOEs. While private enterprises are technically allowed to compete with SOEs on the same terms and conditions, in practice, the playing field is tilted toward SOEs. SOE holding structures and management arrangements (e.g. state representatives as board members) make it difficult for private enterprises to compete with SOEs. Furthermore, specific legal constructions can result in preferential treatment of SOEs. For example, state corporations have no unified legal framework, but are set up under a different law; this case-by-case approach leaves much scope for discretion and lobbying by company insiders.

According to some estimates, federal and regional governments control about 40% of the stock market capitalization in Russia in 2008, compared to only 24% in 2004. SOEs are active in the sectors of banking – 64% of market cap; oil and gas – 47%; and utilities – 37%, as well as in fuel production, metallurgy, and chemical industry. According to the European Bank for Reconstruction and Development, the private sector’s share of GDP fell from 70% in 2003 to 65% in 2009. The Russian government has announced a relatively small privatization plan for 2010, intended to raise about \$2.7 billion by selling down stakes in around 450 enterprises.

Corporate governance of SOEs is characterized by the “dual management” model. The Federal Agency for State Property Management (Rosimushchestvo) is authorized by the Russian government to exercise shareholder rights for federally-owned shares in companies and is responsible for the preparation and nomination of candidates at the annual meetings of shareholders. As a general rule, Rosimushchestvo nominates to a company’s board of directors representatives of the most relevant government body, based on the sectoral characteristics of the business. The sectoral state body thus participates in managing the company through its representatives. In important companies which are on the borderline between the sectoral priorities of the government and its political interests, top government officials may be nominated to the boards of directors (e.g. the Minister of Energy is the Chairman of the state-owned oil pipeline company, Transneft). Issues that hamper the efficient operations of SOEs include a lack of transparency, unclear responsibilities of boards of directors, misalignment of managers’ incentives and company performance, inadequate control mechanisms on managers’ total remuneration or their use of assets transferred by the state to the SOE, and reduced disclosure requirements.

## **Corporate Social Responsibility**

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Over the last decade, globalization and the rapid expansion of large Russian companies’ presence in international markets have led to a new approach to corporate social responsibility.

While there is still little pressure from Russian consumers and shareholders for businesses to change their ways, contact with peers, investors, and customers overseas has forced these companies to focus more on their reputations and those of their brands.

When seeking to acquire companies in Western countries or raise capital on international financial markets, Russian companies face international competition and in-depth scrutiny. Whether or not a company adheres to certain CSR standards can affect its bottom line. Consequently, most large Russian companies currently have a policy or strategy for CSR in place or are developing one.

International and Russian business associations stress CSR and promote CSR initiatives and standards for their members and for all businesses in Russia. For example, in 2004 the Russian Union of Industrialists and Entrepreneurs developed the Social Charter of Russian Business. In a subsequent update, it was recognized as being in agreement with the standards set out in the UN Global Compact. Today more than 200 Russian companies and organizations have joined the Charter.

## **Political Violence**

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Although the use of strong-arm tactics is not unknown in Russian commercial disputes, the Embassy is not aware of cases where foreign investments have been attacked or damaged for purely political reasons. Russia continues to struggle with an ongoing insurgency in Chechnya, Ingushetiya and Dagestan. These republics and neighboring regions in the northern Caucasus have a high risk of violence and kidnapping.

## **Corruption**

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Corruption continues to grow in Russia and its pervasiveness is acknowledged regularly both by Russia's highest officials and society at large. As such, corruption remains a major problem for businesses and investors in Russia. According to Transparency International (TI), Russia scored 2.2 out of 10 this year, up from 2.1 in 2008 – in a nod to the anti-corruption legislation that President Medvedev had enacted in December 2008. Nonetheless, Russia's 2009 ranking (146<sup>th</sup>) was far below its 2004 ranking (90<sup>th</sup> place). In PricewaterhouseCoopers' 2009 Global Economic Crime Survey, Russia came in last place with 71% of respondents having reported experiencing economic crime, of which bribery and corruption is a major component, in the 12 months prior to the survey.

It is currently estimated that the annual cost of corruption to Russia is \$318 billion, about one-third of its GDP. There have been few prosecutions and/or dismissals of high-level corrupt officials that would send a clear message of deterrence.

The Government of Russia has repeatedly designated the fight against corruption and the enforcement of law as priorities. Russia is a signatory to the UN Convention against Corruption and to the Council of Europe's Criminal Law Convention on Corruption. Neither President Medvedev's Council for the Fight Against Corruption, which was established in the spring of 2008, nor the anti-corruption legislation of December 2008 have yet been effective in reducing corruption. Insofar as the legislation is concerned, implementing regulations have not yet been drafted.

Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities overseas for U.S. companies and the broader



business climate. It also deters international investment, stifles economic growth and development, distorts prices, and undermines the rule of law.

It is important for U.S. companies, irrespective of their size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance program or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in foreign markets should take the time to become familiar with the relevant anticorruption laws of both the foreign country and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by requiring them to uphold their obligations under relevant international conventions. A U. S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

**U.S. Foreign Corrupt Practices Act:** In 1977, the United States enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: <http://www.justice.gov/criminal/fraud/docs/dojdocb.html>.

**Other Instruments:** It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental to the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Antibribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements.

**OECD Antibribery Convention:** The OECD Antibribery Convention entered into force in February 1999. As of December 2009, there are 38 parties to the Convention including the United States (see <http://www.oecd.org/dataoecd/59/13/40272933.pdf>). Major exporters China, India, and Russia are not parties, although the U.S. Government strongly endorses their eventual accession to the Convention. The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. The United States meets its international obligations under the OECD Antibribery Convention through the U.S. FCPA.

**UN Convention:** The UN Anticorruption Convention entered into force on December 14, 2005, and there are 143 parties to it as of December 2009 (see <http://www.unodc.org/unodc/en/treaties/CAC/signatories.html>). The UN Convention is the first global comprehensive international anticorruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The UN Convention goes beyond previous anticorruption instruments, covering a broad range

of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, trading in influence to the concealment and laundering of the proceeds of corruption. The Convention contains transnational business bribery provisions that are functionally similar to those in the OECD Antibribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery. Russia became a signatory in 2003, and ratification occurred in 2006.

**Council of Europe Criminal Law and Civil Law Conventions:** Many European countries are parties to either the Council of Europe (CoE) Criminal Law Convention on Corruption, the Civil Law Convention, or both. The Criminal Law Convention requires criminalization of a wide range of national and transnational conduct, including bribery, money laundering, and account offenses. It also incorporates provisions on liability of legal persons and witness protection. The Civil Law Convention includes provisions on compensation for damage relating to corrupt acts, whistleblower protection, and validity of contracts, inter alia. The Group of States against Corruption (GRECO) was established in 1999 by the CoE to monitor compliance with these and related anti-corruption standards. Currently, GRECO comprises 46 member States (45 European countries and the United States). As of December 2009, the Criminal Law Convention has 42 parties and the Civil Law Convention has 34 (see [www.coe.int/greco](http://www.coe.int/greco).) Russia is a party to the Criminal Law Convention on Corruption and GRECO; it is not a party to the Civil Law Convention.

**Free Trade Agreements:** While it is U.S. Government policy to include anticorruption provisions in free trade agreements (FTAs) that it negotiates with its trading partners, the anticorruption provisions have evolved over time. The most recent FTAs negotiated now require trading partners to criminalize “active bribery” of public officials (offering bribes to any public official must be made a criminal offense, both domestically and trans-nationally) as well as domestic “passive bribery” (solicitation of a bribe by a domestic official). All U.S. FTAs may be found at the U.S. Trade Representative Website: <http://www.ustr.gov/trade-agreements/free-trade-agreements>. There is no free trade agreement between Russia and the United States.

**Local Laws:** U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department’s U.S. Commercial Service can provide assistance with navigating the host country’s legal system and obtaining a list of local legal counsel.

**Assistance for U.S. Businesses:** The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of the company’s overarching compliance program when choosing business partners or agents overseas. The U.S. Commercial Service can be reached directly through its offices in every major U.S. and foreign city, or through its Website at <http://www.trade.gov/cs>.

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department’s Advocacy Center and State’s Office of Commercial and Business Affairs. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. government officials, including local embassy personnel and through the Department of

Commerce Trade Compliance Center “Report A Trade Barrier” Website at [http://tcc.export.gov/Report\\_a\\_Barrier](http://tcc.export.gov/Report_a_Barrier).

**Guidance on the U.S. FCPA:** The Department of Justice’s (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department’s present enforcement intentions under the antibribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ’s Fraud Section Website at <http://www.justice.gov/criminal/fraud/fcpa>. Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel, U.S. Department of Commerce, Website, at [http://www.ogc.doc.gov/trans\\_anti\\_bribery.html](http://www.ogc.doc.gov/trans_anti_bribery.html). More general information on the FCPA is available at the Websites listed below.

Exporters and investors should be aware that generally all countries prohibit the bribery of their public officials, and prohibit their officials from soliciting bribes under domestic laws. Most countries are required to criminalize such bribery and other acts of corruption by virtue of being parties to various international conventions discussed above.

### Anti-Corruption Resources

Some useful resources for individuals and companies regarding combating corruption in global markets include the following:

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a “Lay-Person’s Guide to the FCPA” is available at the U.S. Department of Justice’s Website at: <http://www.justice.gov/criminal/fraud/fcpa>.
- Information about the OECD Antibribery Convention including links to national implementing legislation and country monitoring reports is available at: [http://www.oecd.org/departement/0,3355,en\\_2649\\_34859\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/departement/0,3355,en_2649_34859_1_1_1_1_1,00.html). See also new Antibribery Recommendation and Good Practice Guidance Annex for companies: <http://www.oecd.org/dataoecd/11/40/44176910.pdf>
- General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: [http://www.ogc.doc.gov/trans\\_anti\\_bribery.html](http://www.ogc.doc.gov/trans_anti_bribery.html).
- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at: [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi/2009](http://www.transparency.org/policy_research/surveys_indices/cpi/2009). TI also publishes an annual *Global Corruption Report*, which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. See <http://www.transparency.org/publications/gcr>.

- The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 212 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See [http://info.worldbank.org/governance/wgi/sc\\_country.asp](http://info.worldbank.org/governance/wgi/sc_country.asp). The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at: <http://go.worldbank.org/RQQXYJ6210>.
- The World Economic Forum publishes the *Global Enabling Trade Report*, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See <http://www.weforum.org/en/initiatives/gcp/GlobalEnablingTradeReport/index.htm>.
- Additional country information related to corruption can be found in the U.S. State Department's annual *Human Rights Report* available at: <http://www.state.gov/g/drl/rls/hrrpt>.
- Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators for 92 countries with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: <http://report.globalintegrity.org>.

## **Bilateral Investment Agreements**

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The United States and Russia currently do not have a bilateral taxation treaty in force. Russia has concluded bilateral investment treaties (BITs) with 65 countries, and 45 of them are in force. In 2009, Russia signed a BIT with Angola and ratified its BITs with China, Indonesia and Venezuela. Two of the BITs that Russia also ratified in 2009, with Qatar and Jordan, came into force in 2009, on June 4 and June 17, respectively.

## **OPIC and Other Investment Insurance Programs**

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In an agreement ratified in 1992, the U.S. Overseas Private Investment Corporation (OPIC) was authorized to provide loans, loan guarantees ("financing"), and investment insurance against political risks to U.S. companies investing in Russia. OPIC's political risk insurance and financing help U.S. companies of all sizes invest in Russia. OPIC insures against three political risks: expropriation; political violence; and currency inconvertibility. To meet the demands of larger projects in Russia and worldwide, OPIC can insure up to \$250 million per project and up to \$300 million for projects in the oil and gas sector with offshore, hard currency revenues. Projects in the oil and gas sector with offshore, hard currency revenues may be approved for an exposure limit up to \$400 million if the project receives a credit evaluation ("shadow rating") of investment grade or higher. The individual per project exposure limit for financing is \$250 million. The maximum combined (insurance and financing) exposure limit to OPIC on a single project is \$400 million. OPIC has no minimum investment size requirements. OPIC also makes equity capital available for investments in Russia by guaranteeing long-term loans to private equity investment funds. Detailed information about OPIC's programs can be accessed at <http://www.opic.gov>.

The Russian labor market remains fragmented, characterized by limited labor mobility across regions and consequent wage and employment differentials. The unemployment rate, using International Labor Organization (ILO) standards, peaked in February 2009 at 9.5% following a sharp decline in output, especially in the industrial sector. Since the beginning of March, the labor market has gradually improved. In November, the unemployment rate was 8.1%, or 6.1 million people. Unemployment is expected to worsen slightly in first half of 2010.

Despite an excess of job seekers compared to the number of vacancies throughout 2009, many employers complained about the low quality of applicants' skills. Even in the banking, finance, and construction sectors, in which layoffs were considerable, it is still difficult for companies to find high quality professionals. This is due in part to weak linkages between the education system and the labor market. In addition, the economy suffers from a general shortage of highly skilled labor. On the other hand, a large number of inefficient enterprises with high vacancy levels offer workers unattractive, uncompetitive salaries and benefits.

According to official statistics, four strikes were registered in 2008, and only one took place from January - October 2009. Independent experts, however, believe that these statistics significantly underestimate the level of labor conflict. Transportation, machine building, and metallurgy are the industries in which labor conflicts have been the most frequent. Wage arrears and layoffs were the most important sources of contention.

Approximately 45% of Russia's workforce is unionized. The GOR generally adheres to ILO conventions protecting worker rights, though enforcement is often lacking. The 2002 Labor Code governs labor standards in Russia. When adopted, it was meant to diminish the role of the government in setting and enforcing labor standards, with trade unions playing a role in representing workers' interests. However, there are no clear enforcement mechanisms for an employer's failure to engage in good faith collective bargaining. Revisions to the Labor Code since 2002 have included new procedures for investigating industrial accidents and the requirement that businesses employing more than 50 workers must establish a work safety division and create a position for a "work safety specialist." The enforcement of worker safety rules continues to be a major issue, as enterprises are often unable or unwilling to invest in safer equipment or to enforce safety standards.

## **Foreign-Trade Zones/Free Ports**

To date, six Special Economic Zones (SEZs) have been established pursuant to legislation passed in 2005: in Zelenograd and Dubna in the Moscow region (focused on micro-electronics and nuclear technology, respectively); St. Petersburg (information technology); Tomsk (new materials); Lipetsk (appliances and electronics); and Yelabuga (auto components and petrochemicals).

Enterprises operating in industrial-production zones (20 square kilometers) pay lower unified social taxes, and those within progressive-technical zones (2 square kilometers) are allowed to write off all R&D expenses. Both types of zones benefit from reduced land and property taxes and a waiver of customs duties on imports and finished exports.

In 2007, seven special tourist economic zones were established in the Krasnodar, Stavropol, Altai, Kaliningrad, and Irkutsk regions, as well as in the constituent republics of Altai and Buryatia. In June 2008, a tender committee approved the creation of three port special



economic zones to stimulate infrastructure development. The locations included the airports of Krasnoyarsk in East Siberia and Ulyanovsk in the Volga area, and the Sovetskaya Gavan port in the Khabarovsk Territory in the Far East.

In late 2009, the Russian Federal Special Economic Zones Management Agency, which was created under the 2005 legislation to manage the zones, was abolished. Its functions were transferred to the Ministry of Economic Development, which will establish a special department to continue work with the zones.

The SEZs are developing gradually, led by the Moscow region and St. Petersburg, but poor infrastructure is hampering their growth. Transportation and logistical challenges make SEZs in more remote regions less attractive. The special tourist economic zone in Krasnodar, site of the 2014 Sochi Winter Olympics, was expected to attract significant foreign investment, but that prospect has become more uncertain in the current financial climate. The SEZ in Kaliningrad, previously established in 1996, has been able to attract some moderate investments, but those in the Russian Far East have had less success.

## Foreign Direct Investment Statistics

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Table 1 shows flows of foreign investment by country for the first nine months of 2009, compared to the same period in 2008. Total foreign investment declined by 27.8% in the first nine months of 2009, compared to the same period in 2008. According to Russian statistical practice, total foreign investment numbers include direct investment (FDI), portfolio investment, and other investment (largely trade credits). This year, the largest share of foreign investment came from Luxemburg. FDI from Cyprus is consistently high because most FDI coming from Cyprus is actually returning Russian capital. (Note: The data in the Tables below is from the Russian State Statistical Service (RosStat) and may differ from data maintained by the Central Bank of Russia and the U.S. Department of Commerce.)

**Table 1: Top Ten Investors - By Year (in USD million)**

Country	Jan-Sept. 2009		Jan-Sept. 2008	
	Total	FDI	Total	FDI
Luxembourg	8,905	N/A	6,267	N/A
Netherlands	8,348	1,066	8,911	4,942
Germany	5,507	1,635	6,528	1,847
Cyprus	5,231	2,092	15,304	4,320
UK	4,231	317	12,550	870
Japan	1,641	N/A	N/A	N/A
France	1,600	537	5,079	671
USA	1,279	92	2,098	216
Virgin Islands (UK)	1,129	359	2,643	1,595
Ireland	595	N/A	999	N/A
All Others	16,272	3,877	15,411	4,740
<b>Total</b>	<b>54,738</b>	<b>9,975</b>	<b>75,792</b>	<b>19,201</b>

The numbers in Table 2 represent an accumulated stock of total foreign investment, which include FDI, portfolio, and “other” investment as of September 30, 2009 compared to the amount, accumulated by the same date in 2008.

**Table 2: Top Investors - Accumulated Basis (in USD million)**

Country	As of Sept. 30, 2009		As of Sept. 30, 2008	
	Total	FDI	Total	FDI
Netherlands	49,426	29,171	45,152	38,773
Cyprus	47,042	31,195	54,528	38,561
Luxembourg	37,947	1,039	34,210	1,221
UK	25,622	3,641	31,356	4,460
Germany	19,811	7,420	14,881	5,512
Ireland	9,240	433	8,017	465
France	8,516	2,066	8,515	1,950
USA	7,608	2,790	8,503	3,161
Virgin Islands (UK)	7,444	4,221	7,470	5,111
Japan	6,989	801	N/A	N/A
All Others	42,749	21,324	38,647	18,669

Source: Federal Service for State Statistics (RosStat)

Table 3 shows total foreign investment by region over the first nine months of 2009, compared to the same period in 2008. Moscow continues to attract the largest volume of investments (51.6% of total foreign investment), mainly due to the concentration of companies' headquarters and the largest concentration of consumers with high purchasing power.

**Table 3 – Foreign Investment – Top Regions (in USD million)**

	Jan-Sep 2009			Jan-Sep 2008		
	Amount	%	Rank	Amount	%	Rank
Moscow (city)	28,211	51.60%	1	28,339	37.40%	1
St. Petersburg	3,044	5.60%	2	4,806	6.30%	3
Moscow Region	2,793	5.10%	3	5,157	6.80%	2
Sakhalin	2,488	4.50%	4	3,609	4.80%	4
Chelyabinsk Region	1,905	3.50%	5	2,836	3.70%	7
Tatarstan	1,568	2.90%	6	1,322	1.80%	12
Tyumen	1,373	2.50%	7	866	1.10%	15
Leningrad Oblast	1,056	1.90%	8	704	0.90%	22
Sverdlov Oblast	1,001	1.80%	9	1,693	2.20%	11
Kaluga Oblast	984	1.80%	10	835	1.10%	23
Others	10,315	18.80%		25,625	33.90%	
<b>Total</b>	<b>54,738</b>	<b>100%</b>		<b>75,792</b>	<b>100.00%</b>	

Source: Federal Service for State Statistics (RosStat) (Note: Includes direct, portfolio, and other investment.)

Table 4 shows investment by sector over the first nine months of 2009, compared to the same period in 2009. Total investment in such sectors as trade, extraction of fuel, and transport and communications fell by over 50%, while other real estate, production and distribution of power, gas and water, finance, food, and construction became higher investment growth sectors in 9M08?, compared to the same period in 2007.

**Table 4: Foreign Investment: Top Sectors (in USD million)**

	<b>Jan-Sep 2009</b>		<b>Jan-Sep 2008</b>	
	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>
Trade	29.70%	16,277	23.60%	17,917
Transport and Communications	15.60%	8,512	3.00%	2,237
Real Estate and Related Services	10.20%	5,593	14.20%	10,767
Extraction of Fuel	7.70%	4,220	8.30%	6,328
Metallurgy	5.90%	3,230	15.20%	11,519
Production of coke and oil products	5.60%	3,053	3.40%	2,559
Finance	3.60%	1,971	4.30%	3,249
Production of vehicles	3.40%	1,864	1.00%	2,341
Food Industry	2.70%	1,475	3.80%	2,858
Production of paper	1.90%	1,052	0.70%	1,452
All Others	13.70%	7,491	19.20%	14,565
<b>Total</b>	<b>100.00%</b>	<b>54,738</b>	<b>100.00%</b>	<b>75,792</b>

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## Chapter 7: Trade and Project Financing

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### How Do I Get Paid (Methods of Payment)

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Payment methods and terms vary depending upon the U.S. company's business model and relationship with its Russian trading partner. For new to market companies, requesting advance payment for goods and services from a Russian customer may be a prudent course to follow until both parties establish a positive record of payment. Once a U.S. firm has established a strong relationship with a Russian trading partner, it may consider extending short- and eventually longer-term credit as a way to bolster sales volume. This should be done with caution and only after careful evaluation and establishment of successful payments. The U.S. exporter might also consider insuring such credits with one of the larger Russian insurance companies that offer export credit insurance to foreign firms. Such insurance can be reinsured through a large international insurance company.

For some large transactions, advance payment from a Russian buyer may be impractical. In such cases, financing may be provided by a bank, export credit agency or venture fund. Exporters' risk can be minimized with a bank or insurance guarantee from a Russian bank that would be acceptable to a U.S. bank. In leasing deals, exporters should insist on an upfront payment of three to four months upon delivery as a way to mitigate some of the risk.

Leasing has become increasingly attractive to both lessees and lessors because of its economic effectiveness, flexibility and accessibility in comparison to bank finance. Most large Russian banks have leasing programs that they can offer their clients in such cases, and there is a growing list of foreign leasing companies operating in Russia that can offer Russian clients leasing terms for imported equipment. Aviation, energy, mining, construction, transportation, pharmaceutical, forestry and fishing industries equipment which may be too expensive for Russian customers to purchase, are often leased.

### How Does the Banking System Operate

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Despite improvement over the last several years, the Russian banking system is still evolving in terms of being able to meet the capital and credit needs of a rapidly growing and dynamic market economy. However, while the banking services available from Russian banks is still limited compared to what is available in the U.S., a company doing business in Russia can access an expanding range of basic services offered by a larger commercial bank.

The Russian banking sector is highly segmented, with the top five banks controlling 48% of assets. There are nearly 1100 banks in Russia; approximately 81 are 100% foreign-owned. The number of small banks is gradually decreasing due to insolvency and consolidation.

The onset of the economic crisis underscored the dominance of state banks in the sector. The top two banks, Sberbank (controlled by the Central Bank) and VTB (controlled by the government), together own about one-third of the banking sector assets in Russia. The credit crunch dramatically reduced the availability of funding from commercial sources. The market liquidity available for Russian borrowers remains limited and the largest Russian companies often rely on assistance from the key state-owned banks. In the wake of the financial crisis, Russia's banking sector is under stress and may change dramatically in the near to medium term.

## **Foreign-Exchange Controls**

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Currency control legislation has been liberalized considerably in the last few years. For payments related to the import of goods, there are no significant restrictions. However, the bank of the Russian importer is obliged to ensure compliance of payments with the currency regulations. Therefore, the Russian importer and its bank set up a "transaction passport" for each contract. The foreign exporter is not directly involved, but may be affected due to the need for the Russian importer to obtain documents and information from the exporter.

For more information, see Conversion and Transfer Policies in the Investment Climate Statement (Chapter 6).

## **U.S. Banks and Local Correspondent Banks**

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Most foreign businesses prefer to deal with foreign-owned banks, as they are more stable, more experienced and generally offer higher levels of service. Until recently, these banks concentrated their activity in highly profitable financial markets and were not interested in commercial banking. However, demand led them to diversify their services to include foreign trade transactions and commercial banking. Many foreign banks now provide regular commercial services, including accounts, transfers, currency exchange, credit, documentary operations, letters of credit and trade financing. Some of these banks will establish individual accounts for non-residents and employees of their institutional clientele.

Unfortunately, the lack of nationwide branches makes these services largely unavailable to customers operating outside the major metropolitan centers of Moscow and St. Petersburg. U.S. banks have increased their share of the Russian banking market. Citibank has been present in the Russian market for many years, but has recently increased its presence via aggressive expansion into retail banking. GE Money Bank has also made inroads in the sector.

### State Owned Banks

Two state-controlled banks, Sberbank and Vneshtorgbank (VTB), continue to dominate the corporate and retail banking sectors in Russia. The state also controls a number of smaller banks. The Russian government has repeatedly urged Russia's state-controlled banks to modernize in order to play a more active role in the economy. These public criticisms aside, state banks have been the primary beneficiaries of the government's efforts to supply short- and long-term liquidity to the economy to mitigate the economic crisis.

### Russian Private Commercial Banks

Other viable Russian banks include emerging service-oriented banks and large banks owned by financial-industrial groups. They are competitive and likely to remain customer oriented and to

find creative solutions to Russia's business complexities. A potential weakness is their limited capacity to provide services comparable to those of large international banks. Furthermore, they lack nationwide coverage.

Russia's 10 largest commercial banks are:

- Sberbank
- VTB
- Alfa-Bank
- Gazprombank
- UniCredit Bank
- Raiffeisen Bank
- Southwestern VTB Bank
- Promsvyazbank
- Bank of Moscow
- National Reserve Bank

## **Project Financing**

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The robust macroeconomic situation in recent years facilitated improved bank profitability and liquidity, and banks increasingly engaged in core banking activities. However, the global economic crisis proved to be a substantial setback for the banking sector. Initially, a severe liquidity crunch, ruble depreciation, and deposit runs threatened a collapse of the banking system. However, the Central Bank of Russia enacted a number of measures, including liquidity injections, interbank guarantees, bank bailouts, and support of the ruble. While averting a systemic collapse, banks remain subject to liquidity, refinancing, and credit risks, the latter stemming from the steep recession.

There exists the potential for Public Private Partnerships (PPP) and project finance in Russia. While the relative number of project financings in Russia remain low; there are a variety of potential financings in the area of infrastructure and in the commodity sector. Russia has many qualified firms specializing in the financial and legal aspects of project financing and it is highly recommended to engage one of these firms in the beginning of the project financing process.

U.S. Export-Import Bank (Ex-Im Bank) offers guarantees and direct loans to finance the construction and operation of projects through structured finance transactions, including limited recourse project finance in which project cash flows are used for repayment of the financing.

Since Ex-Im Bank began lending to support U.S. exports to Russia in 1991, total authorizations have been US \$4.9 billion (total exposure in Russia is currently over \$500 million). Today, Ex-Im Bank's outstanding portfolio in Russia includes transactions in such sectors as oil & gas, mining, agriculture, and financial services. In fiscal year 2009 (from October 2008 to September 2009), Ex-Im Bank authorized approximately \$71 million worth of exports to Russia.

Over the 76 years in existence, the Bank has provided financing for an estimated US \$500 billion in U.S. exports worldwide. In FY 2009 alone, Ex-Im Bank supported over US \$26.4 billion in U.S. exports of which US \$4.4 billion went to directly supporting small business transactions.

For additional information on the U.S. Ex-Im Bank's financing options and its projects in Russia, please contact the Bank directly.

Brian Sant Angelo  
International Business Development  
Europe & Central Asia  
Export-Import Bank of the United States  
Phone: (202) 565-3484  
Fax: (202) 565-3677

## **Web Resources**

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Export-Import Bank of the United States: <http://www.exim.gov>  
Country Limitation Schedule: [http://www.exim.gov/tools/country/country\\_limits.html](http://www.exim.gov/tools/country/country_limits.html)

OPIC: <http://www.opic.gov>

Trade and Development Agency: <http://www.tda.gov>

SBA's Office of International Trade: <http://www.sba.gov/oit>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/ccg/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

European Bank for Reconstruction and Development:  
<http://www.ebrd.com/country/country/russia>

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## Chapter 8: Business Travel

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### Business Customs

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The Russian market is extremely competitive. Salesmanship is a key factor and U.S. firms should be prepared to describe the competitive advantages and factors that distinguish them in the marketplace.

Establishing a personal relationship with business partners is a critical factor in the successful negotiation of major projects, government procurement or in developing long-term business relationships. Scheduling meetings with potential Russian business partners can be challenging. It may take weeks to get a response to an email, fax or a telephone request for a meeting. Once contact has been established, patience may still be required to confirm a date and time to meet. U.S. business visitors to Moscow or St. Petersburg are advised to factor traffic into scheduling.

Russian language ability is a must and an interpreter should be hired if necessary. An increasing number of Russian businesspeople speak a courtesy level of English; however, many prefer to conduct business discussions in Russian. The U.S. Commercial Service can arrange for the services of qualified interpreters.

Business cards are important and are exchanged freely. Cards should have regular contact information and an email address and website if available. Most foreign businesspeople in Russia carry bilingual English/Russian business cards (one side English, the other Russian).

Promotional materials in Russian are an important tool for creating interest in a company's products in the Russian market. It is very important that the translation be accurate and of high quality. Many companies interested in the Russian market have used on-line translation services for translation of their promotional material, only to learn that the translation was inferior and did not serve the intended purpose. For the best results, it is highly recommended that professional translation services be used. The Commercial Service can recommend fully qualified translators upon request.

Travel Warnings are issued when the State Department recommends that Americans avoid a certain country, and issues travel advisories when warranted by local conditions. If you are traveling to Russia, please check [travel.state.gov](http://travel.state.gov) before your departure for updated information, and be sure to register your travel through the State Department at <https://travelregistration.state.gov/ibrs/ui/>.

At this writing, the Department of State's Consular Information Sheet for Russia contains the following information on Safety and Security for U.S. citizens in the Russian Federation:

"Given continued civil and political unrest throughout much of the Caucasus region, the Department of State continues to warn U.S. citizens against travel to Chechnya and all areas that border it: North Ossetia, Ingushetia, Dagestan, Stavropol, Karachayevo-Cherkessiya, and Kabardino-Balkariya. The U.S. government's ability to assist Americans who travel to the northern Caucasus is extremely limited. Throughout the region, local criminal gangs have kidnapped foreigners, including Americans, for ransom. U.S. citizens have disappeared in Chechnya and remain missing. Close contacts with the local population do not guarantee safety. There have been several kidnappings of foreigners and Russians working for media and non-governmental organizations in the region. Because of ongoing security concerns, U.S. government travel to the area is very limited. American citizens residing in these areas should depart immediately as the safety of Americans and other foreigners cannot be effectively guaranteed.

Occasional acts of terrorism, including bombings and hostage taking, have occurred in Russia over the last several years. Bombings have occurred at Russian government buildings, hotels, tourist sites, markets, entertainment venues, schools, residential complexes, and on public transportation including subways, buses, trains, and scheduled commercial flights.

There is no current indication that American institutions or citizens are targets, but there is a general risk of American citizens being victims of indiscriminate terrorist attacks. American citizens in Russia should be aware of their personal surroundings and follow good security practices. Americans are urged to remain vigilant and exercise good judgment and discretion when using any form of public transportation. When traveling, Americans may wish to provide a friend, family member, or coworker a copy of their itinerary. Americans should avoid large crowds and public gatherings that lack enhanced security measures. Travelers should also exercise a high degree of caution and remain alert when patronizing restaurants, casinos, nightclubs, bars, theaters, etc., especially during peak hours of business.

American citizens living in Russia or traveling there for even a few days are strongly urged to register with the U.S. Embassy or nearest Consulate General. Registration will allow the embassy to provide direct information on the security situation as necessary. Registration can be done on-line (<https://travelregistration.state.gov/ibrs/ui/>) and can be done in advance of travel.

For the latest security information, Americans traveling abroad should regularly monitor the Department of State, Bureau of Consular Affairs' website at <http://travel.state.gov>, where the current Travel Warnings and Travel Alerts, as well as the Worldwide Caution, can be found.

Up-to-date information on safety and security can also be obtained by calling 1-888-407-4747 toll free in the U.S. and Canada, or for callers outside the United States and Canada, a regular

toll-line at 1-202-501-4444. These numbers are available from 8:00 a.m. to 8:00 p.m. Eastern Time, Monday through Friday (except U.S. federal holidays).

The Department of State urges American citizens to take responsibility for their own personal security while traveling overseas. For general information about appropriate measures travelers can take to protect themselves in an overseas environment, see the Department of State's pamphlet A Safe Trip Abroad."

This information is updated regularly. Always check <http://travel.state.gov> prior to travel.

## **Travel Tips**

Hotels: While world-class tourist and business facilities exist in Moscow and St. Petersburg, they are under-developed in much of Russia, and many goods and services taken for granted in other countries are not yet available. Moscow, St. Petersburg, Novgorod, Nizhniy Novgorod, Nizhnevartovsk, Perm, Samara, Yekaterinburg, Perm, Sochi, Yuzhno Sakhalinsk and Vladivostok, among other cities, have Western-style hotels, though often priced at a premium compared with other major cities of the world. Outside major cities, traditional Russian hotels offer modest accommodations at modest rates. Some regional hotels raise rates for foreign guests. It is possible to find well-appointed hotels in some small towns; it is equally possible to be temporarily without water or electricity when visiting some regions of Russia.

Clothing: Russian businessmen and women predominately wear business suits. For women, dresses, skirts or pants are acceptable. Winters can be extremely cold in Russia with occasional temperatures in the minus-20 Fahrenheit range in northern and Siberian cities; Moscow and St. Petersburg can be quite cold as well, with temperatures in the teens F. not uncommon. Winter clothes may be needed as early as October or as late as April. During the winter months people dress for warmth. Travelers are advised to bring boots or other protective footwear, as streets and sidewalks in winter are frequently slushy or icy. Summers, while brief, can be surprisingly hot, and air conditioning is still rare outside big-city hotels and offices.

Food: A meal in a hotel or top restaurant in Moscow and St. Petersburg can be very expensive by U.S. standards. Nevertheless, in these cities there is an increasing variety of less expensive restaurants, including pizza, and fast food establishments. Russian food can be bland to American tastes, while many visitors find Caucasian, Georgian and Uzbek cuisines to be interesting contrasts. Regardless of the city or hotel, bottled water served with no ice is recommended.

Money: Russia is a predominately cash economy with the Russian ruble as the only legal tender for local transactions. It is illegal to pay for goods and services in U.S. dollars or other foreign currency. Old, worn, or marked bills are often not accepted at banks and exchanges. In Moscow and St. Petersburg, currency exchange offices are available in most shopping areas and provide reliable service. Credit cards are now accepted at many modern businesses in Moscow and St. Petersburg, and at some hotels and restaurants in larger regional cities, but frequently only in major stores. Traveler checks are not widely accepted in Russia. Travelers to regional cities or towns are advised to carry enough cash to cover foreseeable expenses. Major hotels and the American Express offices in Moscow and St. Petersburg may be able to suggest locations for cashing traveler's checks or obtaining cash advances on credit cards. Rubles (and dollars, if needed) may be obtained from bank ATMs that are connected to the PLUS and CIRRUS systems using U.S. debit/credit cards. It is not recommended to use credit/debit cards for small purchases or in standalone ATMs (those not physically located at a bank). ATMs are



common in the larger cities, although there have been some instances of theft from card numbers used in these systems. Western Union has many agents in Moscow, and other cities in Russia, which disburse money wired from the United States.

Mail Services: The following companies, with offices in Moscow, offer priority mail services between the United States and Russia:

- DHL
- Federal Express
- Pony Express
- TNT
- UPS

## **Personal Security**

Incidents of unprovoked, violent harassment against racial and ethnic minorities regularly occur throughout the Russian Federation. The U.S. Embassy and Consulates General continue to receive reports of American citizens, often members of minority groups, having been victimized in violent attacks by “skinheads” or other extremists. Travelers are urged to exercise caution in areas frequented by such individuals and wherever large crowds have gathered. Americans most at risk are those of African, South Asian or East Asian descent, or those who, because of their complexion, are perceived to be from the Caucasus region or the Middle East. These Americans are also at risk of harassment by police authorities.

Visitors to Russia need to be alert to their surroundings. In large cities, they need to take the same precautions against assault, robbery, or pickpockets that they would take in any large U.S. city:

- keep billfolds in inner front pockets,
- carry purses tucked securely under arms,
- wear the shoulder strap of cameras or bags across the chest,
- walk away from the curb and carry purses and other bags away from the street.

The most vulnerable areas include underground walkways and the subway, overnight trains, train stations, airports, markets, tourist attractions, and restaurants.

Groups of children and adolescents have been aggressive in some cities, swarming victims, or assaulting and knocking them down. They frequently target persons who are perceived as vulnerable, especially elderly tourists or persons traveling alone. Some victims report that the attackers use knives. Persons carrying valuables in backpacks, in back pockets of pants and in coat pockets are especially vulnerable to pickpockets. Recently, groups of older teen males have also swarmed Metro passengers and forcibly stolen personal belongings.

Foreigners who have been drinking alcohol are especially vulnerable to assault and robbery in or around nightclubs or bars, or on their way home. Some travelers have been drugged at bars, while others have taken strangers back to their lodgings, where they were drugged, robbed and/or assaulted. The Russian media report that the drug GHB is reportedly gaining popularity in local nightclubs, under the names butyrate or oxybutyrate. This drug can also cause amnesia, loss of consciousness, extreme intoxication when mixed with alcohol, and death. The



drug, typically a capful of liquid mixed with a beverage, gained notoriety in the United States after incidents of date rape and death.

In many cases, stolen credit cards are used immediately. Victims of credit card or ATM card theft should report the theft to the credit card company or issuing bank immediately. Travelers are advised to be vigilant in bus and train stations and on public transport. Travelers have generally found it safer to travel in groups organized by reputable tour agencies. Visitors are strongly discouraged from using unmarked, "gypsy" taxis. Passengers have been victims of robbery, kidnapping, extortion and theft. Criminals using these taxis to rob passengers often wait outside bars or restaurants to find passengers who have been drinking and therefore more susceptible to robbery. Robberies may also occur in taxis shared with strangers. Although there are few registered taxi services in Russia, travelers should always use authorized services when arriving at major airports.

A common street scam in Russia is the "turkey drop" in which an individual "accidentally" drops money on the ground in front of an intended victim, while an accomplice either waits for the money to be picked up, or picks up the money him/herself and offers to split it with the pedestrian. The individual who dropped the currency then returns, aggressively accusing both of stealing the money. This confrontation generally results in the pedestrian's money being stolen. Avoidance is the best defense. Do not get trapped into picking up the money, and walk quickly away from the scene.

To avoid highway crime, travelers should try not to drive at night, especially when alone, or sleep in vehicles along the road. Travelers should, under no circumstances, pick up hitchhikers; they not only pose a threat to physical safety, but also put the driver in danger of being arrested for unwittingly transporting narcotics.

Extortion and corruption are common in the business environment. Threats of violence and acts of violence are commonly resorted to in business disputes. Organized criminal groups and sometimes local police target foreign businesses in many cities and have been known to demand protection money. Many Western firms hire security services that have improved their overall security, although this is no guarantee. Small businesses are particularly vulnerable. American citizens are encouraged to report all extortion attempts to the Russian authorities and to inform consular officials at the U.S. Embassy or nearest Consulate General.

Travelers should be aware that certain activities that would be normal business activities in the United States and other countries are either illegal under the Russian legal code or are considered suspect by the Federal Security Service (FSB). U.S. citizens should be particularly aware of potential risks involved in any commercial activity with the Russian military-industrial complex, including research institutes, design bureaus, production facilities or other high technology, government-related institutions. Any misunderstanding or dispute in such transactions can attract the involvement of the security services and lead to investigation or prosecution for espionage. Rules governing the treatment of information remain poorly defined.

It is not uncommon for foreigners in general to become victims of harassment, mistreatment and extortion by law enforcement and other officials. Police do not need to show probable cause in order to stop, question or detain individuals. If stopped, travelers should try to obtain, if safe to do so, the officer's name, badge number, and patrol car number, and note where the stop happened, as this information assists local officials in identifying the perpetrators in cases where the incident is not for legitimate purposes. Authorities are concerned about these incidents and

have cooperated in investigating such cases. Travelers should report crimes to the U.S. Embassy or the nearest Consulate General.

**Consular Services:** All Americans who travel to Russia are encouraged to register at the U.S. Embassy or at one of the U.S. Consulates, listed below. In addition to providing updated travel and security information, registration facilitates replacement of a lost or stolen passport as well as contact in case of emergency.

**U.S. Embassy - Moscow**

John Beyrle, Ambassador  
8 Bolshoy Deviatinsky Pereulok, Moscow 121099  
American Citizen Services, Consular Section  
21 Novinskiy Blvd, Moscow 123242  
Tel: 7 (495) 728-5577, Fax: 7 (495) 728-5084  
After-hours (emergencies): Tel: 7 (495) 728-5025/728-5000

**U.S. Consulate General - St. Petersburg**

Consul General Sheila S. Gwaltney  
15 Furshtadskaya Street, St. Petersburg 191028  
Tel: 7 (812) 331-2600, Fax: 7 (812) 331-2852  
After-hours emergencies: Tel: 7 (812) 271-6455 or 939-5794

**U.S. Consulate General - Vladivostok**

Consul General Thomas H. Armbruster  
32 Pushkinskaya Street, Vladivostok 690001  
Tel: 7 (4232) 300-070, Fax: 7 (4232) 499-371/2  
(4232) 300-091 (visa section)  
After-hours emergencies: Tel: 7 (4232) 710-067

**U.S. Consulate General – Yekaterinburg**

Consul General Timothy Sandusky  
15A Gogolya Street, 4th Floor, Yekaterinburg 620151  
Tel: 7 (343) 379-3001/379-4619/91, Fax: 7 (343) 379-4515

**Visa Requirements**

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The Russian government requires visas and residence permits for businessmen and investors. Work and residence permits must be renewed periodically -- a cumbersome process. Russia's visa system for residence and work permits is very complicated, and potential investors would be well-advised to consult the State Department and U.S. Embassy websites for the latest information on Russian visas: <http://moscow.usembassy.gov/russian-visas.html> and [http://travel.state.gov/travel/cis\\_pa\\_tw/cis/cis\\_1006.html](http://travel.state.gov/travel/cis_pa_tw/cis/cis_1006.html). In some sectors, requirements that a certain percentage of staff be Russian citizens may have a negative impact on foreign investors.

**ENTRY/EXIT REQUIREMENTS:** The Russian government maintains a restrictive and complicated visa regime for foreigners who visit, transit, or reside in the Russian Federation. A U.S. citizen who does not comply with Russian visa laws can be subject to arrest, fines, and/or deportation. Russian authorities will not allow a U.S. citizen traveler with an expired visa to depart the country, effectively stranding the person for up to 20 days, until local authorities grant an exit visa.

The Government of Russia does not consistently recognize the standing of the U.S. diplomatic mission to intervene in visa matters, including situations in which an American is stranded because of an expired visa. U.S. citizens should also be aware that Russian immigration and visa laws change regularly, and the implementation of new regulations has not always been transparent or predictable; it is recommended that Americans consult with the U.S. Embassy and, possibly, an immigration specialist for assistance in more complex residency and work-related issues.

The Russian visa system includes a number of provisions that may be unfamiliar to Americans, including:

- [Sponsorship](#)
- [Entry Visas](#)
- [Limitations on Length of Stay](#)
- [Exit Visas](#)
- [Migration Cards](#)
- [Visa Registration](#)
- [Transit Visas](#)
- [Restricted Areas](#)

[Dual citizens](#) who also carry Russian passports face additional complicated regulations.

***Sponsorship:*** Under Russian law, every foreign traveler must have a Russian-based sponsor, which could be a hotel, tour company, relative, employer, university, etc. Even if a visa was obtained through a travel agency in the United States, there is always a Russian legal entity whose name is indicated on the visa and who is considered to be the legal sponsor. Russian law requires that the sponsor must apply on the traveler's behalf for replacement, extension, or changes to a Russian visa. U.S. citizens are strongly advised to ensure that the sponsor listed on their visa is a known, legal entity, and that the traveler holds contact information for the visa sponsor prior to arrival in Russia, as the sponsor's assistance will be essential to resolve any visa problems or assist in cases of emergency.

***Entry Visas:*** To enter Russia for any purpose, a U.S. citizen must possess a valid U.S. passport and a visa issued by a Russian Embassy or Consulate. It is impossible to obtain an entry visa upon arrival, so travelers must apply for their visas well in advance. U.S. citizens who apply for Russian visas in third countries (e.g., countries bordering the Russian Federation) where they do not have residence, may face considerable delays in visa processing. Travelers who arrive in Russia without an entry visa will not be permitted to enter the country, and face immediate return to the point of embarkation at their own expense.

Russian tourist visas are often granted only for the specific dates mentioned in the invitation letter provided by the sponsor. U.S. citizens sometimes receive visas valid for periods as short as 24 hours. Even if the visa is misdated through error of a Russian Embassy or Consulate, the traveler will still not be allowed into Russia before the visa start date or be allowed to leave after the visa expiration date. Any mistakes in visa dates must be corrected before the traveler enters Russia. It is helpful to have someone who reads Russian check the visa before departing the United States. Travelers should ensure that their visas reflect intended activities in Russia (e.g., tourism, study, business, etc.). Travelers are advised to request visas for a period of five days before and after the anticipated stay, if possible, in order to manage unanticipated changes of travel plans.

U.S. citizens who are denied visas may seek a clarification from the Ministry of Foreign Affairs, 32/34 Smolenskaya-Sennaya Pl., Moscow, Russia, 119200, e-mail [ministry@mid.ru](mailto:ministry@mid.ru).

**Limitations on Length of Stay:** Unless a visa specifically authorizes employment or study, a foreigner may stay in Russia only 90 days in any 180-day period. This applies to business, tourist, humanitarian and cultural visas, among other categories.

**Exit Visas:** A valid visa is necessary to depart Russia. Travelers who overstay their visa's validity, even for one day, will be prevented from leaving until their sponsor intervenes and requests a visa extension on their behalf. If a visa has expired more than three days prior to departure, Russian authorities may take up to 20 calendar days to authorize an exit visa, during which time the traveler will be stranded in Russia at his or her own expense. The ability of the Embassy or Consulates General to intervene in these situations is limited.

Russian law prohibits licensed lodging establishments in Russia from housing foreign travelers with expired visas. There are few adequate public shelters or safe havens in Russia, and neither the U.S. Embassy nor the Consulates General have means to accommodate such stranded travelers.

Visitors who lose their U.S. passports and Russian visas to accident or theft must immediately replace their passports at the U.S. Embassy or one of the Consulates General. The traveler must then enlist the visa sponsor to obtain a new visa in order to depart the country. It is helpful to make a photocopy of your visa in the event of loss, but a copy is not sufficient to permit departure.

Visas for students and English teachers sometimes allow only one entry. In these cases, the sponsoring school is responsible for registering the visa and migration card and obtaining an exit visa. Obtaining an exit visa can take up to twenty days so students and teachers need to plan accordingly. Please see the section below regarding Teaching in Russia.

**Migration Cards:** All foreigners entering Russia must fill out a two-part migration card upon arrival. The traveler deposits one part of the card with immigration authorities at the port of entry, and keeps the other part for the duration of his or her stay. Upon departure, the traveler must submit his or her card to immigration authorities. Foreign visitors to Russia are normally required to present their migration cards in order to register at hotels.

Migration cards, in theory, are available at all ports of entry from Russian immigration officials (Border Guards). The cards are generally distributed to passengers on incoming flights and left in literature racks at arrival points. Officials at borders and airports usually do not point out these cards to travelers; it is up to the individual travelers to find them and fill them out.

Replacing a lost or stolen migration card is extremely difficult. While authorities will not prevent foreigners from leaving the country if they cannot present their migration cards, travelers could experience problems when trying to re-enter Russia at a future date.

Although Russia and Belarus use the same migration card, travelers should be aware that each country maintains its own visa regime. U.S. citizens wishing to travel to both nations must apply for two separate visas. A traveler entering Russia directly from Belarus is not required to obtain a new migration card, but at his or her option may do so if blank ones are available at the time of entry.

**Visa Registration:** Travelers must register their visa and migration card through their sponsor, in any location in Russia at which they spend more than three days. If a traveler chooses not to register a stay of less than three days, he or she is advised to keep copies of tickets, hotel bills, or itineraries in order to prove compliance with the law.

U.S. citizens should be aware that Russian police officers have the authority to stop people and request their identity and travel documents at any time, and without cause. Due to the possibility of random document checks by police, travelers should carry their original passports, migration cards, and visas with them at all times.

**Transit Visas:** Travelers intending to transit through Russia en route to a third country must have a Russian transit visa. Even travelers who are simply changing planes in Moscow or another international airport in Russia for an onward destination will be asked to present a transit visa issued by a Russian Embassy or Consulate. Russian authorities may refuse to allow a U.S. citizen who does not have a transit visa to continue with his or her travel, obliging the person to immediately return to the point of embarkation at the traveler's own expense.

**Restricted Areas:** U.S. citizens should be aware that there are several closed cities and regions in Russia. Travelers who attempt to enter these areas without prior authorization are subject to arrest, fines, and/or deportation. A traveler must list on the visa application all areas to be visited and subsequently register with authorities upon arrival at each destination. Travelers should check with their sponsor, hotel, or the nearest office of the Russian Federal Migration Service before traveling to unfamiliar cities and towns.

**American Citizens Also Holding Russian Passports:** Dual U.S./Russian nationals who enter Russia on Russian passports face several possible difficulties. Russian authorities will not permit departure from Russia if the person's Russian passport has expired or has been lost, whether or not the traveler also has a valid U.S. passport. In these cases the traveler will be required to obtain a new Russian passport, a process that can take several months and requires the applicant to have a place of residence in Russia. In order to apply for a Russian visa in a U.S. passport, however, Russian consular officials require a person to renounce his or her Russian citizenship.

Russian external passports extended by Russian Consulates or Embassies overseas are not considered valid for departure from Russia no matter how long the extension. Bearers of such passports will have to apply for a new passport inside the country. Males of conscript age (18 - 27 years old) who are deemed to be Russian citizens may experience problems if they have not satisfied their military service requirement.

For further information, please see the Department of State's webpage on [dual nationality](#).

U.S. Companies that require travel of foreign businesspersons to the United States should be advised that security options are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: <http://travel.state.gov/visa/index.html>

United States Visas.gov: <http://www.unitedstatesvisas.gov>

U.S. Embassy Moscow website: <http://moscow.usembassy.gov/visas.html>

For visitors to Russia, it is mandatory to carry your passport and visa with you at all times. Random document checks by police on foreigners are frequent. Failure to present proper documentation can lead to detention and/or fines.

Below is contact information for the Russian Embassy and Consulates in the U.S.

Russian Embassy and Consulate in Washington, D.C.

Tel: (202) 939-8902/07/13/18

Fax: (202) 483-7579

Russian Consulate in New York City

Tel: (212) 348-0926/55

Fax: (212) 831-9162

Russian Consulate in San Francisco

Tel: (415) 928-6878, 202-9800/01

(415) 929-0862 (visas)

Fax: (415) 929-0306

Russian Consulate in Seattle

Tel: (216) 728-1910

Fax: (216) 728-1871

Russian Consulate in Houston

Tel: (713) 337-3300

Fax: (713) 337-3305

**Telecommunications**

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Internet Accessibility: The level of penetration and Internet awareness is increasing in Russia. Recent figures show that about 30% of the Russian population uses the Internet on a regular basis; 70% use ADSL or Broadband connection services. The largest players in Russian language e-mail services and search engines are Mail.ru, Rambler and Yandex. Internet is widely available in the major cities.

Wi-Fi is increasingly available in Russia. Currently, there are about 3,500 hot spots active in Russia that are primarily located in Moscow, St. Petersburg and other large cities. Launching WIMAX services combined with Wi-Fi will be the driver for further proliferation of wireless Internet access.

Mobile Technology: Mobile services are provided in the GSM, CDMA-450, AMPS and DAMPS standards. GSM dominates the market, with 3G gaining some share. The major cellular operators in the market are Mobile TeleSystems (MTS), Vimpelcom and Megafon.

Long distance telephone calls can usually be made from any place in the city using IP phone cards or SKYPE, if you have an available Internet connection. Check with your provider to make sure coverage is available. With a pre-paid, locally purchased phone card, you can also make calls from phone kiosks located near metro and train stations, tourist attractions and in downtown areas.

A rudimentary knowledge of Russian is extremely helpful for those placing a call through local telephone and telegraph offices. Moscow is eight hours ahead of Washington, D.C. To reach Moscow by phone from the United States you need to access an international line, and then dial Russia Country Code "7," Moscow City Code "495" followed by the phone number. Some new numbers use "499" for Moscow, and calling cell phones in Russia often require a different dialing string.

## Transportation

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The U.S. Federal Aviation Administration (FAA) has assessed the Russia government as being in compliance with the ICAO international aviation safety standards for oversight of Russia air carriers operations. See <http://www.faa.gov/about/initiatives/iasa/> for more information.

Travelers should be aware some local airlines do not have advance reservation systems but sell tickets for cash at the airport. Flights often are canceled if more than 30% of the seats remain unsold. Travelers should have their passport with them at all times. Air travel within western Russia is occasionally erratic but generally stays on schedule; the quality of service continues to improve. Flights within the Russian Far East are often delayed or cancelled in winter months due to snow or fog. International Russian carriers such as Aeroflot and Transaero usually use western equipment and meet higher standards than domestic carriers.

Moscow has three major airports (Sheremetyevo, Domodedov and Vnukovo); a fourth airport, Bykovo, deals primarily with cargo and emergency flights. International flights generally enter Moscow through Sheremetyevo and Domodedovo. Most international flights arrive in Sheremetyevo-2 (renamed SVO-F in December 2009) while Sheremetyevo-1 (to be renamed SVO-B in summer 2010) handles most domestic traffic. With the opening of terminal C (SVO-C) in March 2007 and the opening of terminal D (SVO-D) in November 2009, some international and domestic travel has been diverted to these facilities. Terminal E (SVO-E) will be completed in March 2010 and will also receive international flights. Future airport development plans include connecting terminals F, D, and E to allow for more convenient passenger movements throughout the terminals.

Travelers may continue to other Russian cities from Sheremetyevo, Vnukovo or Domodedovo airports. However, travel time between airports or to the city center can take as much as three hours, and ample time must be allowed for passport control, customs clearance and baggage retrieval. St. Petersburg's airport has two terminals: Pulkovo-1 (domestic flights) and Pulkovo-2 (international flights).

Train travel in Russia is generally reliable and convenient as stations are located in the city center. From St. Petersburg to Moscow, travelers often ride overnight trains, although unaccompanied passengers are reminded to keep an eye on their valuables and lock their doors at night (if in a sleeping compartment), as some incidents of pick-pocketing have been reported. Inclement weather, erratic maintenance and a culture of aggressive driving make road conditions throughout Russia highly variable. Drivers and pedestrians should exercise extreme caution to avoid accidents. Traffic police sometimes stop motorists to levy cash "fines," and criminals occasionally prey on travelers, especially in isolated areas.

In Moscow and St. Petersburg, the metro (subway) can be an efficient and inexpensive means of transportation. However, for non-Russian speakers, it can be difficult unless prepared in advance. Be sure to carry a metro map with you and learning Cyrillic alphabet is helpful. Marked taxis are increasingly present in Moscow and St. Petersburg. Short-term business



travelers may wish to consider renting a car and driver for extensive excursions, or hire taxis through their hotels for shorter jaunts. Car rentals are another option that has opened up in the last couple of years, although driving in Russia can be difficult for the uninitiated.

## Language

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Though many better-educated Russians in major cities speak English, you should be prepared to conduct business in Russian. Many first-time visitors are surprised by how difficult it can be to find anyone who speaks English. U.S. businesses should hire a reputable interpreter when conducting important negotiations. Not having product literature in Russian will put your company at a disadvantage relative to your European and Asian competitors, not to mention local firms.

## Health

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As in many countries of the world, travelers should drink only boiled or bottled water, with the possible exception of Moscow. Medical care is usually below western standards, with occasional shortages of basic medical supplies. In Moscow and St. Petersburg, there are now a number of Western managed medical and dental clinics that provide adequate ambulatory care. Such facilities usually require cash payment at Western rates upon admission. The U.S. Embassy and Consulates maintain lists of such facilities and of English speaking doctors (<http://moscow.usembassy.gov/medical.html>). For serious medical conditions, it may be necessary to travel to western Europe or return to the U.S., and this can be very expensive if undertaken under emergency conditions. The cost of a medical evacuation (in an air ambulance) from some Russian regions exceeds \$100,000. The Embassy strongly urges all travelers who visit Russia to purchase traveler's medical insurance, which includes coverage for a medical evacuation. Elderly travelers and those with pre-existing health problems may be at particular risk. Further information on health matters can be obtained from the Centers for Disease Control and Prevention's international traveler's hotline at 1-877-394-8747, or via the CDC home page at <http://www.cdc.gov>.

## Local Time, Business Hours, and Holidays

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There are 11 time zones across Russia. Moscow is eight hours ahead of Eastern Standard/Daylight Time. Russian changes relative to daylight savings time are made on the last Sundays of March and October, at 2 am.

Most companies and offices maintain business hours of 9:00 a.m. - 6:00 p.m. Many shopping centers and supermarkets are open from 10:00 a.m. - 8:00 p.m. Increasingly, major supermarket chains are open 24 hours, 7 days per week.

**Russian Holidays:** The holidays listed on the U.S. Embassy's website are not an exclusive list. Occasionally days off will be declared by the government to create a long weekend, particularly at Christmas (when holidays fall on weekends, Russian authorities generally announce during the week prior to the holiday whether it will be celebrated on the previous Friday or the following Monday). Travelers should be aware that little business is done from mid-December through mid-January. The country essentially shuts down for business from New Years to Russian Orthodox Christmas (January 7). Government offices, most businesses and even much of the press close during this period. The period from May 1 through May 9 is similar.



## **U.S. Embassy Official Holidays for 2010:**

<http://moscow.usembassy.gov/holidays.html>

### **Temporary Entry of Materials and Personal Belongings**

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Russian customs procedures include entry and exit declaration forms. Foreigners are allowed to export up to \$3,000 without providing a customs declaration or proof of how the money was obtained. Foreigners may also export up to \$10,000 by simply filling out a customs declaration upon exit. More than \$10,000 can be exported upon proof that it was imported into Russia legally (a stamped customs declaration or proof of a legal bank or wire transfer must be presented to export currency). Failure to follow these procedures can and does result in delays, detentions, confiscation of the currency, and even imprisonment. Lost or stolen customs forms should be reported to the Russian police, and a police report (spravka) should be obtained to present to customs officials upon departure. Often, however, the traveler will find that the lost customs declaration cannot be replaced.

Generally speaking, you should obtain a receipt for all items of value – including caviar – purchased in Russia. Furthermore, old artifacts and antiques must have a certificate indicating that they have no historical value. For further information, call Russian Customs at 7 (495) 265-6628 or 208-2808.

Currently, personal items not exceeding rubles 65,000 in value and a weight of 50 kilos may be exported free of charge. A 30% duty may be required to export any personal items valued at over rubles 650,000 and weighing no more than 200 kilos, although additional charges may be required depending on the type of item to be exported. Export duties may be imposed on any items that are determined by customs officials at the point of departure to be of commercial use. Items which may appear to have historical or cultural value -- icons, rugs, art, antiques, etc. -- may be taken out of Russia only with prior written approval of the Ministry of Culture and payment of a 100% duty. Occasionally, dealers of quality items may be able to arrange this approval at considerably less cost. Certain items, such as caviar, medications, jewelry, precious/semi-precious stones or metals, and fuel may be exported duty-free in limited amounts only.

Computers, electronic notebooks and related hardware must be presented to customs officials at the airport for scanning at least two hours prior to departure. The Embassy understands that customs officials may require "information storage devices" to be submitted 24 hours before departure. The law is often neglected but can be enforced on a-case-by-case basis. Failure to follow the customs regulations may result in penalties ranging from confiscation of the property in question and/or imposition of fines or arrest.

To prevent possible difficulties in taking currency and valuables back out of Russia, travelers are highly advised to ensure that their passenger declaration form is completed and is stamped by customs officials at the point of entry. This customs declaration should be kept and made available when exiting Russia.

### **Web Resources**

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U.S. Department of State Website: <http://www.travel.state.gov>

Centers for Disease Control and Prevention: <http://www.cdc.gov>

U.S. Embassy Moscow Website: <http://www.usembassy.ru>  
[http://moscow.usembassy.gov/consular/acs.php?record\\_id=acs](http://moscow.usembassy.gov/consular/acs.php?record_id=acs)

U.S. Federal Aviation Administration (FAA)  
<http://www.faa.gov/about/initiatives/iasa>

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## Chapter 9: Contacts, Market Research, and Trade Events

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- [Market Research](#)
- [Trade Events](#)

### Contacts

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#### **RUSSIAN GOVERNMENT OFFICES**

##### **Ministry of Economic Development**

Ms. Elvira Nabiullina, Minister

1/3, 1st Tverskaya-Yamskaya Street, Moscow 125993

Tel: 7 (495) 200-0353; 950-9263 (The Americas Dept.), Fax: 7 (495) 251-6965

<http://www.economy.gov.ru>

##### **Ministry of Finance**

Mr. Aleksey Kudrin, Minister

9 Ilyinka Street, Entrance 1, Moscow 103097

Tel: 7 (495) 298-9101/-9130/-9140/-9868; Fax: 7(495) 925-0889

<http://www.minfin.ru>

##### **Ministry of Industry and Trade**

Mr. Viktor Khristenko, Minister

7 Kitaigorodskiy Proyezd, Moscow 109074

Tel: 7 (495) 710-4888; Fax: 7 (495) 710-5150 (International Dept.)

<http://www.minprom.gov.ru>

##### **Ministry of Energy**

Mr. Sergey Shmatko, Minister

42 Shchepkina Street, GSP-6, Moscow 107996

Tel: 7 (495) 631-98-58; Fax: 7 (495) 631-8364

<http://minenergo.com>

##### **Ministry of Information and Mass Communications**

Mr. Igor Shegolev, Minister

7 Tverskaya Street, Moscow 125375

Tel: 7 (495) 771-8100; Fax: 7 (495) 771-8718

<http://english.minsvyaz.ru/enter.shtml>

##### **Ministry of Transportation**

Mr. Igor Levitin, Minister

1/1 Rozhdestvenka Street, Moscow 109012

Tel: 7 (495) 626-1000, Fax: 7 (495) 626-9128, 626-9038

<http://www.mintrans.ru>

**Ministry of Health and Social Development**

Ms. Tatyana Golikova, Minister  
3 Rakhmanovsky Per., GSP-4, Moscow 127994  
Tel.: 7 (495) 628-4453, Fax: 7 (495) 627-2944  
<http://www.minzdravsoc.ru>

**Ministry of Agriculture**

Ms. Yelena Skrynnik  
1/11 Orlikov Pereulok, Moscow 107139  
Tel: 7 (495) 607-8000; Fax: 7 (495) 607-8362  
<http://www.mcx.ru>

**Ministry of the Interior**

Mr. Rashid Nurgaliyev  
Economic Security Department  
16, Zhitnaya St.  
Moscow 119049  
Tel: 7 (495) 667 6867  
<http://eng.mvdrrf.ru>

**Federal Customs Service**

Mr. Andrey Belyaninov  
11/5, Novozavodskaya St.  
121087 Moscow  
Tel: 7 (495) 499 7771  
<http://www.customs.ru/en>

**Federal State Statistics Service (Goskomstat)**

Mr. Alexander Surinov  
39 Myasnitskaya St.  
Moscow 107450  
Tel: 7 (495) 207 4902  
Fax: 7 (495) 207 4087  
<http://www.gks.ru/wps/portal/english>

**Russian Agency for Patents and Trademarks (Rospatent)**

Dr. Boris Simonov, Director General  
30-1 Berezhkovskaya Nab., G-59, GSP-5, Moscow 123995  
Tel. 7 (495) 240-6138, 240-6015; Fax: 7 (495) 243-3337  
<http://www.fips.ru/rospatent/index.htm>

**Central Bank of Russia**

Mr. Sergey Ignatyev, Chairman  
Sergey Tatarinov, Head of External and Public Relations  
12 Neglinnaya Street, Moscow 107016  
Tel: 7 (495) 771-9100; Fax: 7(495) 621-6465  
<http://www.cbr.ru/>

## **SELECTED REGIONAL GOVERNMENTS**

### **Moscow City Administration**

Yuri Luzhkov, Mayor of the City of Moscow  
13 Tverskaya Street, Moscow 125032  
Tel/Fax: 7 (495) 692-1637  
<http://www.mos.ru>

### **St. Petersburg City Administration**

Valentina Matvienko, Governor of St. Petersburg  
Aleksander Prokhorenko, Chairman  
Committee for External Relations  
Smolny, St. Petersburg 191060  
Tel: 7 (812) 576-7113; Fax: 7(812) 576-7633  
<http://www.kvs.spb.ru/?lang=eng>  
<http://eng.gov.spb.ru>

### **Vladivostok City Administration**

Igor Pushkaryov, Mayor of Vladivostok  
Okeanskiy prospect, Vladivostok 690950  
Tel: 7 (4232) 614-223  
<http://www.vlc.ru>

### **Chukotsky Autonomous Okrug Government**

Roman Kopin, Governor  
20 Bering Street, Anadyr 689000  
Tel: 7 (42722) 290 86, Fax: 7 (42722) 290 87  
<http://www.chukotka.org/en/main>

### **Kamchatka Oblast Territorial Administration**

Aleksey Kuzmitskiy, Governor  
1 Lenin Square, Petropavlovsk Kamchatsky 683040  
Tel: 7 (4152) 412 096; Fax: 7 (4152) 423 503  
E-mail: [press@kamchatka.gov.ru](mailto:press@kamchatka.gov.ru)

Natalia Labkovskaya, Director  
Department of Foreign Economic Relations and Protocol  
Tel/Fax: 7 (4152) 42 53 06  
E-mail: [orgotdel@kamchatka.gov.ru](mailto:orgotdel@kamchatka.gov.ru)  
<http://www.kamchatka.gov.ru>

### **Khabarovsk Territorial Government**

Aleksandr Levintal, Vice-Chairman, Minister  
Ministry of Economic Development & Foreign Relations  
19 Muravjeva-Amurskogo Street, Khabarovsk 680002  
Tel: 7 (4212) 329 739; Fax: 7 (4212) 324-153  
E-mail: [econ@adm.khv.ru](mailto:econ@adm.khv.ru)  
<http://www.adm.khv.ru/>

**Leningrad Oblast**

Vladimir Kolesnikov, Chairman  
Committee for International and Regional Relations  
67 Suvorovsky Prospect, St. Petersburg 193311  
Tel: 7 (812) 274-4742; Fax: 7 (812) 274-5986  
E-mail: [kvs@lenreg.ru](mailto:kvs@lenreg.ru)  
<http://www.lenobl.ru/>

**Primorskiy Territorial Administration**

Oleg Shcheka, Director  
Department of International Relations and Tourism  
22 Svetlanskaya Street, Vladivostok 690110  
Tel: 7 (4232) 208 340; Fax: 7 (4232) 209 259  
E-mail: [intnlcmt@primorsky.ru](mailto:intnlcmt@primorsky.ru)  
<http://www.primorsky.ru>

**Sakhalin Regional Administration**

Vadim Rokotov, Chairman  
Committee for International, Foreign Economic and Regional Relations  
32 Kommunisticheskiy Prospect, Yuzhno-Sakhalinsk 693000  
Tel: 7 (4242) 727 494; Fax: 7 (4242) 727 493  
E-mail: [kom\\_mvms@adm.sakhalin.ru](mailto:kom_mvms@adm.sakhalin.ru)  
<http://www.ciferas.ru/>

**Sverdlovsk Oblast Administration****Ministry for International and Foreign Economic Relations**

Alexander Kharlov  
1 Oktyabrskaya Ploshchad, Yekaterinburg 620031  
Tel: 7 (343) 217-86-72/73; Fax: 7 (343) 217-89-07/11

**Yekaterinburg City Administration**

Svetlana Garipova, Chairman  
Foreign Relations Department  
24a Lenina Prospect, Yekaterinburg 620014  
Tel: 7 (343) 377-55-67, 51-43-83; Fax: 7 (3432) 51-90-05  
Email: [garipova@adm-ekburg.ru](mailto:garipova@adm-ekburg.ru)

**AMERICAN CHAMBER OF COMMERCE IN RUSSIA****American Chamber of Commerce in Russia**

Andrew Somers, President  
Tatiana Raguzina, Sr. VP for Policy and Membership  
7 Dolgorukovskaya Street, Moscow 127006  
Tel: 7 (495) 961-2141; Fax: 7 (495) 961-2142  
E-mail: [amcham@amcham.ru](mailto:amcham@amcham.ru)  
<http://www.amcham.ru>

**American Chamber of Commerce in St. Petersburg**

Ms. Maria Chernobrovkina, Executive Director  
"Na Novo-Isaakievskoy" Business Center  
Ulitsa Yakubovicha 24, left wing, 3rd floor  
St. Petersburg 190000  
Tel: 7 (812) 448 1646; Fax: 7 (812) 448 1645  
E-mail: [all@spb.amcham.ru](mailto:all@spb.amcham.ru)  
<http://www.amcham.ru/spb/>

**RUSSIA-FOCUSED CHAMBERS OF COMMERCE AND INDUSTRY AND TRADE ASSOCIATIONS IN THE UNITED STATES****U.S.-Russia Business Council**

Edward Verona, President and CEO  
1110 Vermont Avenue, NW, Suite 350, Washington, DC 20005  
Tel: (202) 739-9180, Fax: (202) 659-5920  
<http://www.usrbc.org>

Lotte Plaza Business Center  
Novinskiy boulevard 8, office 907  
Moscow 121099  
Tel: 7 (495) 228 58 96; Fax: 7 (495) 228 58 97  
<http://www.usrbc.org>

**American-Russian Chamber of Commerce and Industry**

Helen Teplitskaya, President  
Aon Center, 200 E Randolph St., Suite 2200  
Chicago, IL 60601  
Tel: (312) 494-6562; Fax: (312) 494-9840  
E-mail: [info@arcci.org](mailto:info@arcci.org)  
<http://www.arcci.org/>

**Foundation for Russian-American Economic Cooperation**

Carol Vipperman, President  
2601 Fourth Avenue, Suite 600, Seattle, WA 98121  
Tel: (206) 443-1935; Fax: (206) 443-0954  
E-mail: [fraec@fraec.org](mailto:fraec@fraec.org)  
<http://www.fraec.org>

**Mid-Atlantic Russia Business Council**

Val Kogan, President and CEO  
1760 Market Street, Suite 1100, Philadelphia, PA 19103  
Tel: (215) 708-2628; Fax: (215) 963-9104  
E-mail: [info@ma-rbc.org](mailto:info@ma-rbc.org)  
<http://www.ma-rbc.org>

**Northern Forum**

Priscilla P. Wohl, Executive Director  
716 W 4<sup>th</sup> Avenue, Suite 100  
Anchorage, AK 99501-4625  
Tel: (907) 561-3280; Fax: (907) 561-6645  
E-mail: [secretariat@northernforum.org](mailto:secretariat@northernforum.org)  
<http://www.northernforum.org>

**Russian-American Chamber of Commerce**

Deborah Anne Palmieri, Ph.D., President and CEO  
1552 Pennsylvania St.  
Denver, CO 80203  
Tel/Fax: (303) 831-9181  
E-mail: [Info@DebPalmieriRussia.com](mailto:Info@DebPalmieriRussia.com)  
<http://www.russianamericanchamber.org>

**RUSSIAN CHAMBERS OF COMMERCE AND INDUSTRY AND TRADE ASSOCIATIONS****Council for Trade and Economic Cooperation (Russia-USA)**

Boris Alekseyev, President  
3 Naberezhnaya Tarasa Shevchenko, Moscow 121248  
Tel: 7 (495) 243-5514, -54940; Fax: 7 (495) 243-4156  
E-mail: [ctec@sovintel.ru](mailto:ctec@sovintel.ru)  
<http://www.ctec.ru/eng>

Veronika Krasheninnikova, Ph.D., President  
445 Park Avenue, 10th Floor  
New York, NY 10022  
Tel: (212) 829 5724; Fax: (917) 322 2105  
Email: [info-usa@ctec.ru](mailto:info-usa@ctec.ru)

**Moscow Chamber of Commerce and Industry**

Leonid Govorov, President  
38/1, Sharikopodshipnikovskaya Street  
Moscow, 115088 Russia  
Tel.: 7 (499) 132-0001  
Fax: 7 (499) 132-0029  
E-mail: [mtp@mtpp.org](mailto:mtp@mtpp.org)  
<http://www.mostpp.ru/eng>

**Chamber of Commerce and Industry of the Russian Federation**

Yevgeniy Primakov, President  
6 Ilyinka Street, Moscow 109012  
Tel: 7 (495) 620-0009  
Fax: 7 (495) 620-0360  
E-mail: [tpprf@tpprf.ru](mailto:tpprf@tpprf.ru)  
<http://eng.tpprf.ru/>



**Russian Union of Industrialists and Entrepreneurs (RSPP)**

Alexander Shokhin, President  
10/4 Staraya Ploshad, Moscow 103070  
Tel: 7 (495) 748-41-11  
Fax: 7 (495) 606-11-29  
E-mail: [rspp@rspp.ru](mailto:rspp@rspp.ru)  
<http://www.rspp.ru>

**St. Petersburg Chamber of Commerce and Industry**

Vladimir Katenev, President  
Ms. Tatyana M. Radion, Director of External Relations Department  
46-48 Chaikovskogo Street, St. Petersburg 191123  
Tel: 7 (812) 273-5908; Fax: 7 (812) 272-8612  
E-Mail: [spbcci@spbcci.ru](mailto:spbcci@spbcci.ru)  
<http://www.spbcci.ru/english>

**Russian-American Business Council (RABC)**

Ednan T. Agaiev, Vice President  
18/4 B. Ovchinnikovskiy Pereulok Office 207, Moscow 115184  
Tel: 7 (495) 970-13-89  
Fax: 7 (495) 970-13-88  
E-mail: [rabc@rabc.ru](mailto:rabc@rabc.ru)  
<http://www.rabc.ru>

**U.S. COMMERCIAL SERVICE CONTACTS IN RUSSIA**

CS Russia has offices in Moscow, St. Petersburg, and Vladivostok. For a complete list of services, upcoming events and industry specific contacts, please visit:  
<http://www.buyusa.gov/russia/en>

**Moscow**

U.S. Embassy, U.S. Commercial Service  
8, Bolshoy Deviatinsky Pereulok  
Moscow 121099, Russia  
Phone: 7 (495) 728-5580, Fax: 7 (495) 728-5585  
Email: [Moscow.Office.Box@mail.doc.gov](mailto:Moscow.Office.Box@mail.doc.gov)

**St. Petersburg**

U.S. Consulate General, U.S. Commercial Service  
15 Ulitsa Furshtatskaya  
St. Petersburg 191028  
Tel: 7 (812) 326-2560, Fax: 7 (812) 326-2561  
Email: [StPetersburg.Office.Box@mail.doc.gov](mailto:StPetersburg.Office.Box@mail.doc.gov)

**Vladivostok**

U.S. Consulate General, U.S. Commercial Service  
32 Pushkinskaya Street, Vladivostok, 690001  
Phone: 7 (4232) 499-381, Fax: 7 (4232) 30-00-92  
Email: [Vladivostok.Office.Box@mail.doc.gov](mailto:Vladivostok.Office.Box@mail.doc.gov)

## **U.S. EMBASSY AND CONSULATE CONTACTS**

### **U.S. Embassy**

8 Bolshoy Deviatinsky Pereulok  
Moscow 121099, Russia  
Tel: 7 (495) 728-5000; Fax: 7 (495) 728-5159  
After-hours (emergencies):  
Tel: 7 (495) 728-5025  
<http://moscow.usembassy.gov>

### **U.S. Consulate-General - St. Petersburg**

15 Ulitsa Furshtatskaya, St. Petersburg  
Tel: 7 (812) 331-2600; Fax: (812) 331-2674  
After-hours emergencies:  
Tel: 7 (812) 331-2600  
<http://www.usconsulate.spb.ru>

### **U.S. Consulate General - Vladivostok**

32 Pushkinskaya Street, Vladivostok 690001  
Tel: 7 (4232) 300-070, Fax: 7 (4232) 499-372

### **U.S. Consulate-General – Yekaterinburg**

15 Gogolya Street, 4th Floor, Yekaterinburg  
Tel: (343) 379-30-01, 379-46-19, 379-46-91, 379-45-51  
Fax: (343) 379-45-15

## **CONTACTS FOR COMPANY REGISTRATION**

### **State Registration Chamber with the Ministry of Justice of the Russian Federation**

(Branch and Rep Office Accreditation)  
Robert A. Adelhanyan, Chairman  
3/5 Smolensky Bulvar, Moscow 119121  
Tel: 7 (499) 246-0012, -4724; Fax: (499) 246-0411  
Tel/Fax: 7 (499) 246-7200 (Information Service)  
E-mail: [info@palata.ru](mailto:info@palata.ru)  
<http://www.palata.ru/en>

### **Chamber of Commerce and Industry of the Russian Federation**

Department of Rep. Office Accreditation  
Sergey Borisovich Kulyba, Chief Expert  
6 Ilyinka Street, Office 104, Moscow 109012  
Tel/Fax: 7 (495) 620-0260; Fax: (495) 620-0360  
<http://www.tpprf.ru/en>

### **Company Registration**

Local Tax Authorities contact info and application forms available on:  
Web site: <http://www.nalog.ru>  
In Moscow: <http://www.mosnalog.ru>  
In St. Petersburg: <http://www.r78.nalog.ru>

## **INTERNATIONAL BANKING ORGANIZATIONS**

### **European Bank for Reconstruction and Development (EBRD)**

Sanford (Sandy) Owens, U.S. Department of Commerce Liaison  
Office of the U.S. Executive Director, EBRD  
One Exchange Square, London EC2A 2EH, United Kingdom  
Tel: 44 20 7338-7490; Fax: 44 20 7588-4026  
<http://www.ebrd.com>

### **International Finance Corporation (IFC) – Headquarters**

Mr. Kutlay Ebiri, Manager, Private Enterprise Development  
Central and Eastern Europe Region  
2121 Pennsylvania Avenue, NW  
Washington, D.C. 20433  
Tel: (202) 458-2334; Fax: (202) 676-1513  
For directory service, call the IFC switchboard at Tel: (202) 473-1000  
<http://www.ifc.org>

### **International Finance Corporation (IFC) Resident Representative in Russia**

Snezana Stojkovic, Director  
Central & Eastern Europe Department  
36, Bldg. 1, Bolshaya Molchanovka; 3rd Floor, Moscow 121069  
Tel: 7 (495) 411-7555, Fax: 7(495) 411-7556  
[http://www.ifc.org/ifcext/eca.nsf/Content/Russia\\_Home](http://www.ifc.org/ifcext/eca.nsf/Content/Russia_Home)

### **The World Bank and International Bank for Reconstruction and Development**

U.S. Department of Commerce Liaison  
Office of the U.S. Executive Director  
1818 H Street N.W., Washington D.C. 20433  
Tel: (202) 458-0120/-0118/-1954; Fax: (202) 477-2967  
<http://www.worldbank.org>

## **WASHINGTON-BASED U.S. GOVERNMENT CONTACTS FOR RUSSIA**

### **Overseas Private Investment Corporation (OPIC)**

1100 New York Avenue, N.W., Washington, D.C. 20527  
Tel: (202) 336-8618, -8629, -8741; Fax: (202) 408-5145  
<http://www.opic.gov>

### **Special American Business Internship Training Program (SABIT)**

Tracy Rollins, Director  
U.S. Department of Commerce/SABIT  
1401 Constitution Avenue NW, Washington, DC 20230  
Tel.: (202) 482-0073; Fax: (202) 482-2443  
<http://www.mac.doc.gov/sabit>

### **TPCC Trade Information Center in Washington**

Tel.: 1-800-USA-TRADE

**U.S. Agency for International Development (USAID)**

Office of Privatization and Economic Restructuring

Washington, D.C. 20523

Tel: (202) 736-4410

<http://www.usaid.gov>

**U.S. Bureau of Industry and Security (BIS) (Re: export controls)**

Office of Exporter Services

14th St. & Pennsylvania Ave., NW

U.S. Department of Commerce

Washington, D.C. 20230

Tel: (202) 482-4811; Fax: (202) 482-2927

<http://bis.doc.gov>

**U.S. Department of Agriculture**

Russian Area Officer

14th St. and Independence Avenue SW, Washington, DC 20250

Tel: (202) 720-3080

<http://www.usda.gov>

**U.S. Department of Agriculture, Foreign Agricultural Service,  
Trade Assistance and Promotion Office**

Tel: (202) 720-7420

**U.S. Department of Commerce - Market Access and Compliance  
Russia and Independent States Division**

Jack Brougher, Director

Matthew Edwards, Russia Desk Officer

U.S. Department of Commerce, Rm.3318, Washington, DC 20230

Tel: (202) 482-3952; Fax: (202) 482-3042

<http://www.trade.gov/mac>

**U.S. Department of State, Office of Russian Affairs**

2201 C Street NW, Washington, DC 20520

Tel: (202) 647-6747; Fax: (202) 736-4710

<http://www.state.gov/>

**U.S. Export-Import Bank**

Brian Sant Angelo

International Business Development

811 Vermont Avenue, NW, Washington, DC 20571-0999

Tel: (202) 565-3484; Fax: (202) 565-3628

<http://www.exim.gov/>

**U.S. Trade and Development Agency**

David Hester, Acting Regional Director for Europe and Eurasia

1000 Wilson Blvd., Suite 1600, Arlington, VA 22209-3901

Tel: (703) 875-4357; Fax: (703) 875-4009

Email: [dhester@ustda.gov](mailto:dhester@ustda.gov)

**U.S. Trade Representative**

Elizabeth Hafner, Director for Russia and Eurasia  
600 17th Street, N.W.  
Washington, DC 20508  
Tel: (202) 395-9124  
Email: [Elizabeth\\_Hafner@ustr.eop.gov](mailto:Elizabeth_Hafner@ustr.eop.gov)

**Market Research**[Return to top](#)

To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/marketresearch.html> and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

**Trade Events**[Return to top](#)

Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents.html>

For information for trade events in Russia, click on the link below.

[http://www.buyusa.gov/russia/en/trade\\_events\\_russia.html](http://www.buyusa.gov/russia/en/trade_events_russia.html)

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## Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

[http://www.buyusa.gov/russia/en/products\\_services.html](http://www.buyusa.gov/russia/en/products_services.html)

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>

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